

Annual governance report

Slough Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

My audit is substantially complete. I expect to issue an unqualified audit opinion subject to the satisfactory completion of my closing procedures.

There were four material and a number of significant errors identified in the financial statements provided for audit and these are listed in the Appendix 3 tables 10 and 11. These errors have an impact on the financial position reported in your published accounts.

In addition my audit identified a further four errors that management have declined to amend. If these are to remain unadjusted, I am satisfied they would not have a material impact on the financial statements. Nevertheless, I will require your confirmation of management's approach on these errors in the letter of representation.

The draft financial statements were produced and published by the statutory deadline and the quality of the statements overall was better than last year at the time they were presented to audit. However, there remains scope for improvement in your closedown procedures and overall performance which your officers acknowledge. In particular:

- the closedown programme should allow sufficient time for the completion of quality assurance checks on the draft accounts prior to publication;
- working papers in support of the figures in the accounts should be comprehensive, clearly referenced and made available at the commencement of the audit.

I have recommended that management should carry out a detailed post completion review of its 2011/12 closedown process to identify what can be done better next year. This should include a critical evaluation of working paper requirements and give consideration to introducing robust quality arrangements to ensure that high professional standards are maintained throughout the closedown programme.

I have also identified weaknesses in internal control in relation to your arrangements for registration of land; review and clearance of out of date cheques; year end journal entries and NNDR and VO listing reconciliations and have recommended improvements to management.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

I am satisfied that your response to the two recommendations made by my predecessor last year under the S 11 of the 1989 Audit Commission Act; improving the resilience of your finance function and overhauling your procurement arrangements was adequate and your arrangements are such as to no longer necessitate reporting by exception in my VFM conclusion. Regarding the resilience of your finance function, I draw attention to the fact that as at the date of this report it remains heavily reliant on interim arrangements, although I do acknowledge the action currently being taken by management to secure a more permanent solution that provides for stability and continuity going forward.

Key areas for your attention include:

- Track delivery of the finance function forward plan, ensuring that permanent appointments to key posts are made as soon as possible and key deliverables and targets explicit within the plan are met;
- Continue to monitor the delivery of departmental and management restructures and related workforce reforms to ensure that these are delivered on time and produce planned outcomes;
- Continue to receive management responses to emerging budgetary pressures and through your budgetary processes obtain assurance on a balanced financial position;
- Ensure that the implementation of specific audit recommendations set out in my detailed reports is tracked through the Audit and Risk Committee.

Certificate

I expect to complete the outstanding work and report my findings to management by 24 September 2012. I plan to issue my certificate by the 30 September 2012 subject to clearance of elector issues.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard[s]
<p>Ernst and Young provided pre-contract advice to you during 2011/12 on the formation of a Local Asset Backed Vehicle.</p> <p>Most members of your engagement team, including the Audit Manager but excluding the District Auditor have been advised that, as a result of the recent outsourcing of the Audit Practice's work, they are likely to become employees of Ernst and Young from 1 November 2012 under the Transfer of Undertakings (Protection of Employment) Regulations 2006.</p>	<p>All work undertaken in respect of the Local Asset Backed Vehicle to support the value for money conclusion has been performed by staff who have no potential employment or other relationship with Ernst and Young and reviewed by another Engagement Manager who has no potential employment or other relationship with Ernst and Young prior to the Annual Governance Report or auditor's report being issued. In addition, I will not be transferring to Ernst & Young and therefore do not have an employment relationship.</p>

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit and Risk Committee to:

- confirm management's approach on the unadjusted errors (appendix 2)
- take note of the adjustments to the financial statements included in this report (appendix 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory completion of my closing procedures, I plan to issue an audit report including an unqualified opinion on the financial statements:

My closing procedures include:

- consideration of your Letter of Representation following Council approval;
- checking of agreed audit adjustments to the final version of the statement of accounts, and agreeing revisions to the financial foreword.

Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

Four errors were identified in the financial statements provided for audit which management has declined to amend. These are listed below;

Property Plant and Equipment

Testing carried out as part of the audit identified three Council dwellings out of a sample of 65 that had been disposed of but had not been written out of your accounts and a further two properties classified as land and buildings out of a sample of 29 which you were unable to demonstrate ownership.

This indicated that you were recording assets in your accounts that you did not own. Further testing was carried out by management to assess whether this was a widespread problem and to refine the calculation of the likely error across the whole population. No additional errors were found.

Based on these findings and the extrapolation of the error, the value of Council dwellings appearing in note 12 (£303.335m) is overstated by £6.0m and the value of land and buildings overstated by £2.28m. An adjustment would have the effect of decreasing the value of Plant Property and Equipment in the Balance Sheet and decreasing Unusable Reserves by a total of £8.28m.

Although this error marginally exceeds calculated materiality, the margin is small and there are inherent uncertainties associated with my extrapolation. I am also conscious that there is no impact on the financial health of the Council and in particular on the general fund resources. Accordingly, I have concluded that knowledge of this would not alter the impression that a reader gains from the accounts and therefore that I would not qualify if it remains uncorrected.

Expenditure Funded from Capital under Statue

Expenditure Funded from Capital under Statue (REFCUS) totalling £7.558m which has been included in the Comprehensive Income and Expenditure Statement. This expenditure relates to 2010/11 but was treated in the 2010/11 accounts as assets under construction rather than being accounted for in the Comprehensive Income and Expenditure Statement. It has been adjusted in the 2011/12 accounts. As a consequence total comprehensive income and expenditure for 2011/12 is overstated by this £7.558m and the equivalent figure understated for 2010/11. There is no affect on the General Fund balance as the expenditure is adjusted through reserves and correctly appears as a movement in the Capital Adjustment Account. In order that total comprehensive income and expenditure is correctly stated for each of the financial years, the expenditure should be treated as a prior year adjustment and reversed through reserves.

Out of date cheques

Out of date cheques issued by the Council totalling £0.266m which should be cancelled and written back in your accounts. This would have the beneficial effect of increasing your General Fund resources by this amount.

Cashflow

There is a net difference of £0.857m between entries in the Cashflow statement and entries in the accounts which management has been unable to reconcile. These differences relate to "Capital Grants credited to Provision of Services" (-£0.209m) and "Cashflows from the Purchase of PPE" (£1.065m)

Details of the unadjusted errors to the statements are shown in Appendix 2 table 9. If these are to remain unadjusted, I am satisfied they would not have a material impact on the financial statements. Nevertheless, I will require your confirmation of management's approach on these errors in the letter of representation.

Corrected errors

Details of agreed amendments are shown in Appendix 3. Corrections of all presentational and disclosure errors are not listed in this report but details have been provided separately to officers as a check on the adjustments made.

There were three material and a significant number of non trivial errors identified in the financial statements provided for audit and these are listed in the Appendix 3. Table 10 lists changes to the primary statements. The material errors were:

- Restatement of comparatives showing the split of costs between new categories (£17.521m)
- Correction of accounting for element of self financing of the HRA properties funded from reserves (£10m)
- Note 27 disclosure of amount reported for resource allocation decisions (£9.006m)

These errors have an impact on the financial position reported in your published accounts as indicated below:

Comprehensive Income and Expenditure Statement

- Expenditure on central services to the public has increased by £0.41m due to original balance sheet difference having been taken to the Comprehensive Income and Expenditure Statement but now unwound.
- Non distributed costs have increased by £1.59m due to the re-classification of an income item originally incorrectly included as an exceptional item.
- The deficit on continuing operations was reduced by £1.01m as a consequence of the above and other adjustments.
- Other operating expenditure was increased by £0.79m due to the inclusion of proceeds on sale of HRA assets originally omitted (this adjustment also impacts on the HRA).
- Surplus on revaluation of non current assets was reduced by £2.85m due to the correction of a valuation error.
- Total Council expenditure reported for the year in the Comprehensive Income and Expenditure Statement (before adjustments through reserves) has increased by £2.63m

Balance sheet

- Long term debtors have reduced by £12.657m due to the elimination of an internal debtor incorrectly set up to account for the internally funded HRA self financing payments (£10m) and the reclassification of a debtor balance
- Short term debtors have increased by £2.511m due to the reclassification of the above long term debtor
- Assets held for sale have reduced by £2.850m due to the correction of a valuation error.

Reserves

- The balance on your General Fund has increased by £1.115m to £8.119m due to removal of single sided entries used as balancing figures in the published accounts.
- The balance on your Capital Receipts Reserve has reduced by £1.091m to £1.233m due to the correction of a mis-classified capital receipt
- Unusable reserves have reduced by £8.896m due to the reversal of a long term debtor set up incorrectly to account for the HRA self financing adjustment and other adjustments.

Cashflow statement

- Net cash flows from operating activities have increased by £5.307m
- Net Cash flows from Investing Activities have reduced by £4.486m
- Net Cash flows from Financing Activities have reduced £0.821m

Adjustments to correct for the above have been made in the revised version of the accounts.

In addition there were a significant number of casting errors and non-material amendments including textual changes to disclosure notes which were made by management as a result of my audit. The more significant changes to disclosure notes are listed in Appendix 3 table 11.

Significant risks and my findings

I reported to you in my Audit Plan issued in January 2012 the significant and specific risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
Significant risks	
Resilience of the finance function: Uncertainty as to whether the finance function has the capacity, capability and necessary resilience to operate effectively with established quality assurance arrangements to your	My response included a review of the design and implementation of controls relevant to the significant risk as well as carrying out specific risk based tests. I noted an improved position compared to the previous year but with scope for improvement. Once again capacity and capability of your finance function was

Risk

statutory reporting obligations

Finding

dependant on external support.

Although the draft statement of accounts was produced and published by the statutory deadline the quality of the statements overall shows scope for improvement. In addition comprehensive working papers were not provided at the start of my audit as agreed although they were produced quickly when requested and did not delay progress on the audit.

My audit team received good support and co-operation from management and its staff. The audit was substantially completed within the agreed timetable although because of the time required to work through the large number of adjustments to the accounts and the resolution of a number of technical issues, the completion stages of the audit took longer than they should have done.

My concern for the future is the risk of ongoing disruption and discontinuity as there has been significant turnover of key finance staff during the course of the audit and your finance function remains heavily reliant on temporary staff. However, I am assured that management have plans in place to address my concern.

Transactional services: Post March 2012 some financial information required for the 2011/12 accounts will be produced by an external provider rather than being generated in house. There are a number of risks associated with the transfer of functions concerned with procedures not operating as designed.

My response included a review of the design and implementation of controls relevant to the significant risk as well as carrying out specific risk based tests.

The risks have been mitigated through the formalisation of arrangements between you and the provider and the establishment of a protocol to provide my audit team with access to information required for the discharge of my audit responsibilities.

Although in the main this worked well, my team experienced some initial difficulties in obtaining information on NNDR. I understand that client side arrangements have since been strengthened.

My testing has not identified any significant issues to bring to your attention.

Specific risks

Property, Plant and Equipment – fixed asset register; With the introduction of IFRS accounting in 2010/11, the

Management engaged an external consultant to reconcile and agree the fixed asset register as part of the month 9 closedown and also to review the year end figures as

Risk

number and complexity of adjustments to the capital accounts increased significantly and arrangements for updating the fixed asset register were unable to cope effectively with the increase in throughput and the complexity of entries.

Management introduced measures to address these concerns and it was also the intention that residual problems would be identified and addressed by the interim closedown of your accounts.

Heritage Assets: The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that you may be unable to identify and account for all heritage assets.

Management override of journal controls: I am concerned by an absence of inadequate management check over the authenticity and integrity of journal entries to the general ledger which could result in errors or even the fraudulent manipulation of data.

I understand that management has introduced revised procedures.

Schools: There is a risk that Property, Plant and

Finding

part of the year end closedown process.

A full in year review of property; plant and equipment records could not be undertaken because the information was not available until after the year end but the interim work was helpful in that it identified imbalances in the fixed asset register and enabled corrective action to be taken before the year end closedown of accounts.

However, I am concerned that you do not have adequate arrangements to ensure that all dwellings appearing on the register have been registered with the Land Registry. The risk is that you are showing assets in your accounts that you no longer own. Extended testing was carried out in order to estimate the potential value of any error. I also identified the existence of assets recorded on the register with no asset life, which means they are not being depreciated.

In addition, a recent review by Internal Audit concluded that the asset valuation process is not carried out effectively resulting in assets not being correctly valued and delays in the closure of accounts.

Further work is required to provide assurances over the integrity of the fixed asset register and the valuation of the Council's property holdings.

I evaluated the design and implementation of controls and performed specified procedures to satisfy myself that you have recognised, valued and disclosed material heritage assets in your financial statements.

My testing has not identified any significant issues to bring to your attention.

I evaluated the design and implementation of your revised procedures and I performed procedures to satisfy myself that all material journals processed during 2011/12 were complete, accurate, authorised appropriately and contained a suitable narrative.

My testing has not identified any significant issues to bring to your attention.

I have evaluated your consideration of schools and the IAS 16 recognition criteria and

Risk	Finding
<p>Equipment could be misstated due to the incorrect inclusion or omission of schools in its balance sheet.</p>	<p>consistency with the accounting policy. My consideration of this issue has not identified any significant issues to bring to your attention.</p>
<p>HRA reforms: A one-off settlement payment was made to central government on the 28 March 2012. This was funded in part by PWLB borrowing and internal financing from the General Fund.</p> <p>Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements could be materially misstated.</p>	<p>I have evaluated management’s oversight of HRA reforms.</p> <p>Material errors were identified in the accounting entries which have since been corrected in the accounts.</p>
<p>Reliance on Internal Audit: Changing the internal audit provider part way through the financial year raises a number of risks for my audit; in particular the risk that work planned by the outgoing auditor may not be completed or delayed and the handover to the incoming auditor may not provide the continuity upon which I can rely.</p>	<p>My team has been able to rely on your internal audit function as planned. There are no significant issues that I need to bring to your attention.</p>

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
<p>Registration of land</p> <p>Land purchases have not been routinely registered with the land registry. Out of a sample of 115 fixed assets held in the asset register, we were unable to agree 30 to the land registry records.</p>	<p>management have provided alternative evidence of title (title deeds, where held; property term reference; or evidence of income streams) for all but one of the 30 properties.</p> <p>Your legal title to your assets is at risk</p>	<p>You should introduce controls to ensure that all property assets are registered with the land registry, and review all existing property assets to ensure they are registered.</p>
<p>Write back of un-presented cheques</p> <p>At 31 March 2012 total un-presented cheques for the Disbursement Account and the HB account were £621k (£436k and £185k respectively), of which £266k were out of date i.e. older than 6 months.</p> <p>In June un-presented cheques were £815k (£531k and £284k respectively) of which £331k were out of date i.e. older than 6 months.</p>	<p>Detection of fraud and error is compromised</p>	<p>Cheques should be written off after 6 months. Management should also investigate the reasons for the cheques not being cashed, and consider whether there are related issues or systematic control failures.</p>
<p>Single sided entries in accounts</p> <p>The draft accounts did not reconcile to the trial balance and on enquiry were found to contain single sided entries, in order to balance. These manual entries were processed outside the normal journal system and were not subject to the normal journal controls reported on in Table 2.</p> <p>The single sided entries were removed in the revised accounts, resulting in an increase in the General Fund balance from £6,964k in the</p>	<p>The integrity of the Council's double entry accounting could be seriously compromised giving rise to errors in the accounts.</p>	<p>Journal controls should be extended to cover all entries and adjustments to the accounts carried out as part of accounts closedown.</p>

Description of weakness

published account to £8,119k.

The adjusting items in the Comprehensive Income and Expenditure Statement were:

- Non distributed costs – expenditure increased by £1,419k
- Central services to the public – income decrease by £409k
- Imbalance on balance sheet - £100k

Potential impact

The resulting error, on this occasion is trivial for the purposes of my opinion.

However, regular reconciliation between the VO listings to the NNDR system (Academy) provides evidence that all the adjustments which come from the VO listings have been processed through Academy during the year, and thus NNDR income and contributions to the pool are based on the most up to date information.

Management action

Assurances that regular reconciliation between the VO listing and the NNDR system are carried out as matter of routine under the outsourcing arrangements.

Reconciliation of Valuation Officer (VO) listing to Academy NNDR system.

Reconciliations between the VO listings and the NNDR system (Academy) have not been performed regularly during the year. There was an unexplained difference of £436k as at the 31 January 2012. We asked that a full reconciliation would be carried out at the year end and that any remaining differences should be investigated and cleared. This was not done and the un-reconciled difference remains.

Recommendation

R1 Management action should be taken in response to the issues highlighted above in order to address weaknesses in controls over; registration of land; review and clearance of out of date cheques; year end journal entries and NNDR and VO listing reconciliations.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of your financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I refer to specific issues in the table below:

Table 4: **Other matters**

Issue	Finding
Qualitative aspects of your accounting practices Statement of accounts	The accounts presented for audit contained a significant number of non-material errors including presentational and disclosure errors, errors in prior year comparatives, and inconsistencies between the figures in the accounts. My team identified inconsistencies between the financial information reported in the explanatory foreword and the primary accounting statements.
Qualitative aspects of your accounting practices Working papers	There is scope for improvement in the quality of your working papers. In particular: <ul style="list-style-type: none"> • comprehensive working papers should be prepared as an integral part of the closedown process and made available at the commencement of the audit; • working papers should be supported by a lead schedule which provides a clear trail to the figures in the accounts; • working papers should be subject to quality assurance checks to ensure they are prepared to a consistent standard; • lead officers should be assigned to all working papers to facilitate the follow up of any subsequent audit queries.
Authority for treasury management decisions	Under your constitution the Treasury Management Panel is responsible for authorising long-term borrowing to meet the Council's needs. (The Treasury Management Panel is

Issue	Finding
	<p>made of the Strategic Director of Resources, Assistant Director of Finance and the Treasury Manager (or equivalent).</p> <p>In relation to the decision to fund £10m of the HRA self financing payment from General Fund balances, the Acting Head of Finance authorised the internal borrowing following discussions with your financial advisors. Although this is acceptable under delegated authority, management has been unable to locate any written loan arrangement setting out the terms and conditions of the internal loan; i.e. interest rate, length of loan.</p>
<p>Depreciation not charged on some infrastructure assets</p>	<p>Assets to the value of £9.2m within infrastructure assets were not depreciated because an asset life had not been assigned to the assets on the fixed asset register. The resulting error is trivial for the purposes of my opinion and I have not required management to make the adjustment in the 2011/12 accounts. However, cumulative depreciation would be material when measured over the life of the assets</p> <p>Management has agreed to update the fixed asset register so that depreciation is charged on these assets in future years.</p> <p>In addition management should review the fixed asset register to ensure that all assets required to be depreciated are correctly identified.</p>

Recommendation

R2 Management should carry out a detailed post completion review of its 2011/12 closedown process to identify what can be done better next year. This should include a critical evaluation of working paper requirements in line with the recommendations above and give consideration to introducing robust quality arrangements to ensure that high standards are maintained throughout the closedown programme and best results are achieved at the first attempt.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed your Whole of Government Accounts return and will be reporting to the National Audit Office on the completion of my audit. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion.

My detailed findings are contained in a separate VFM conclusion report to management and I have issued separate reports on your interim closedown arrangements (March 2012); your procurement arrangements (August 2012) and use of consultants (August 2012).

I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the specific risks I identified in my Audit Plan and my assessment of the action that you took in response to the recommendations made by my predecessor under S 11 of the Audit Commission Act 1988.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 5: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively</p>	<p>The economic downturn, compounded by the public sector deficit, continues to have a significant impact on public finances and you will need to remain resilient to the challenges that this presents.</p>	<p>You have adequate arrangements in place to identify and respond to financial pressures; both through the medium term financial planning process and also through in-year review and budgetary monitoring procedures.</p> <p>The key financial pressures in 2011/12 were identified initially in the 2011/12 Medium Term Financial Plan which also contained an assessment of the impact and plans for addressing perceived budget risks.</p>

Criteria	Risk	Findings
<p>financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial acumen at service level needs to be assured so that all budget holders have the necessary financial skills needed to manage their budgets effectively.</p> <p>The over-riding risk is that financial balance is not sustainable.</p>	<p>Budgetary procedures track your performance during the year. Residual risks and mitigating action are reported on a regular basis although this year, there was a delay in reporting your first quarter results for 2012/13 to members.</p> <p>Your medium term financial planning processes contain elements of notable practice. These were assessed as robust last year.</p> <p>Financial management in service directorates has been strengthened. Your corporate finance team has confirmed improvements in budgetary control with service directorates returning more realistic assessments and forecasts.</p> <p>However, maintaining financial acumen at service level must remain a priority, particularly given impending staff changes and as financial constraints begin to bite still further in 2012/13 and future years.</p> <p>You actively consider your position on reserves and these are held at a prudent level although they should be subject to review now that the final outturn for 2011/12 has been confirmed.</p> <p>There are inherent risks and unconfirmed figures within your budget plans, which could impact adversely on the delivery of your financial targets and in view of this, your medium term financial prospects are uncertain.</p> <p>For example your first month 4 budget report for 2012/13 forecasts a year end deficit of £1.4m due to spending pressures in the Children's Services area of Wellbeing and Customer and Community Services Directorates and management have identified other spending pressures which could increase the level of deficit if not tackled successfully.</p> <p>Based on your track record, I am assured that you have the means to manage these risks and I understand that directorates are currently developing action plans to mitigate the areas of overspend and these will be monitored during the rest of the year.</p>
<p>2. Securing economy efficiency and</p>	<p>You need to closely monitor</p>	<p>You have adequate arrangements in place for challenging how you secure</p>

Criteria	Risk	Findings
<p>effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>the delivery of your plans for organisational change ensuring that risks are identified and managed to ensure business continuity; that external consultancy costs are effectively controlled and that realistic timescales for the implementation of new structures and the appointment of key staff are set and adhered to.</p> <p>The risk to you in not managing this process effectively is the potential for slippage against corporate priorities and your inability to contain cost pressures.</p>	<p>economy, efficiency and effectiveness.</p> <p>Since my predecessor reported to you last year you have produced and launched a senior management re-organisation; there have also been a number of other consultations on specific service areas. The senior management restructure involves significant down sizing across service areas. Efficiencies have been made through the combining of posts.</p> <p>The new structures are being put into place on a progressive basis; expectations currently are that the new senior management structure will be firmly established and operating effectively by the end of March 2013. Management believes this is a realistic target given that some assimilation has taken place and further recruitment is in hand.</p> <p>I am satisfied that you have mitigated the risks to the organisation during the transition partly on account of external support across many of the otherwise very stretched key service areas.</p> <p>I am satisfied that you have devised a rigorous approval and monitoring system for the appointment of consultants which ensures that appointments are only made where supported where there is a business need.</p> <p>Directorates are largely delivering front line services to an adequate quality and there has been no reported deterioration in service provision, of which I am aware, caused by a lack of capacity; skills or leadership.</p> <p>My overall conclusion is that the Council has made good progress with the implementation of the new senior management structure. What remains is for this to be completed and embedded to support the consolidation of organisational structures within and across the wider organisation.</p> <p>You are also planning for your future workforce needs. For example, you have commissioned a staff satisfaction survey and a range of actions are in hand to tackle rising sickness absence.</p> <p>I have recommended that management should prepare a formal</p>

Criteria	Risk	Findings
		management response to the staff satisfaction survey and plan to re-visit the survey at some future date; possibly in a year's time to ensure that outcomes are achieved and track the effectiveness of initiatives being launched to tackle high levels of sickness absence.

Recommendations

- R3** Continue to receive management responses to emerging budgetary pressures and through your budgetary processes obtain assurance on a balanced financial position.
- R4** Continue to monitor the delivery of departmental and management restructures and related workforce reforms to ensure that these are delivered on time and that they produce planned outcomes.

I have set out below the findings of my work addressing each of the risks I identified, including my assessment of your response to the S.11 recommendations made by my predecessor.

Table 6: **Section 11 recommendations**

Recommendation	Finding	Impact on VFM conclusion
<p>1. Procurement</p> <p>Overhaul your procurement arrangements to ensure that these reflect best procurement practice; ensure that your operational procedures are consistent with standing orders and financial regulations and ensure that revised procurement practice is complied with and operates effectively across the Council.</p>	<p>In response to a series of concerns and allegations within and outside the Council surrounding the commissioning of a series of design and build refurbishment contracts, management commissioned a review of contract procedures and practice from an independent auditor.</p> <p>The review by the independent auditor identified significant scope for improvement and relevant officers were tasked to implement the recommendations arising therefrom.</p> <p>My own work has confirmed that the Council's procurement procedures have improved over the last year in response to the action taken by management. The corporate procurement team has been strengthened, a strategy and procedures have been established and steps have been taken to make officers in the wider Council aware of the new procurement practices.</p> <p>My residual concern is that until management has the confidence that arrangements are comprehensively understood and firmly embedded in all directorates there continues to be a risk of non-compliance.</p> <p>Management acknowledge this concern and it is being tackled through on going work.</p> <p>I have made several recommendations in my detailed report which management has agreed to implement.</p>	<p>I am satisfied that your response has been appropriate and your arrangements are now adequate.</p>
<p>2. Finance function</p> <p>Ensure that the Council's finance function has the capacity, capability and</p>	<p>I have referred to the resilience of your finance function in my consideration of significant risks (table 1) on my audit of your accounts but the matter has wider ramifications in relation to the management of your finances which is relevant to my Value for Money conclusion.</p>	<p>Risks and challenges remain but I am satisfied that management has taken appropriate action</p>

Recommendation	Finding	Impact on VFM conclusion
<p>necessary resilience to operate effectively with established quality assurance arrangements to meet the Council's statutory reporting obligations in the future.</p>	<p>Due to unexpected staff occurrences you have been unable to consolidate the improvements that you have made in developing the capacity; capability and necessary resilience of your finance function during the year. I am satisfied that management has been proactive in its response to recent developments; it has put in place contingency arrangements to provide financial leadership and direction at this critical time and to consider plans for the future.</p> <p>However, it does mean that your corporate finance resource remains heavily reliant on temporary arrangements going forward and there remains a risk of discontinuity and instability until more permanent arrangements are established.</p> <p>I draw your attention to the temporary nature of your finance arrangements and support your efforts that implement a strategic solution which places a focus on permanent staffing in key posts so that you are able to consolidate your finance resource as soon as possible to provide greater stability and continuity for the future.</p>	<p>and have contingency plans in place.</p>

Recommendation
<p>R5 Track delivery of the finance function forward plan, ensuring that permanent appointments to key posts are made as soon as possible and key deliverables and targets explicit within the plan are met.</p>

Table 7: **Other significant risks**

Risk	Finding	Impact on VFM conclusion
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Risk	Finding	Impact on VFM conclusion
<p>1. School finances</p>	<p>Although the balances held by schools have reduced in year (£10.3m at the year end compared to £11.8m in 2010/11) they remain high relative to other local education authorities. 26 of your schools have balances over the “balance control mechanism” (which sets the threshold for carried forward balances) with surpluses over the threshold totalling £4.7m.</p> <p>Our review of the school forum minutes has confirmed that the Council is actively engaging with schools and taking steps to improve financial discipline. This is welcomed but there is still much to be done to heighten awareness.</p> <p>Financial management more broadly in schools is a general concern which is reported in the your Annual Governance Statement and Internal Audit is undertaking targeted review of arrangements at schools as part of the wider audit process.</p> <p>To the extent to which you are able management should continue to provide support and encouragement to school staff in the development financial skills and awareness. A measure of your success is that school balances are kept at prudent levels and aligned to strategic plans and that you can demonstrate, through the work of Internal Audit that sound financial management is in place and operating at all authority schools.</p>	<p>Issues requiring management attention but arrangements adequate for the purposes of my VFM conclusions</p>
<p>2. Management of the capital programme</p>	<p>There has, once again, been a large under-spend on your 2011/12 capital programme due to a combination of slippage and deferrals of major projects. I have recommended that management should:</p> <ul style="list-style-type: none"> ■ review the capital programme in the light of the 2011/12 out-turn; changes in Council priorities and the decision on the LABV. ■ satisfy itself that slippage was not due to failures in programme management and ensure that arrangements to manage the capital programme are fit for purpose going forward. 	<p>Issues requiring management attention but arrangements adequate for the purposes of my VFM conclusions</p>

Risk	Finding	Impact on VFM conclusion
3. Arrears and debt recovery	Income collection and arrears recovery procedures have been strengthened in 2011/12. Patently irrecoverable debts written off and anticipated improvement in collectability of debt has greatly increased for 2011/12 due to new procedures and dedicated debt collecting officers.	Arrangements adequate
4. Prudential borrowing decisions– Local Asset Backed Vehicle (LABV)	<p>You have established proper procurement processes in relation to your proposed LABV.</p> <p>It should be noted that at the date of the assessment there was no LABV in existence and thus we have not sought to conclude on the management arrangements or the delivery mechanisms of the LABV itself. This will be subject to review after approval and the vehicle created.</p>	Arrangements adequate
5. Delivering outcomes and your corporate priorities	You have adequate arrangements to monitor the achievement of efficiencies and reductions in unit costs and the impact on service quality and provision. Your Gold projects are tracked closely and performance is reported at different levels within the organisation, culminating in high level performance reports to Cabinet and there are other matrixes produced that report outcomes and results in key service areas.	Arrangements adequate
6. Transactional services – outsourced arrangements	We have assessed client side arrangements as adequate although we have not been able to conclude on the effectiveness of these arrangements in practice. Effectiveness will be tested by planned internal audit work over the forthcoming audit year. At this stage the arrangements as reviewed are adequate for the purposes of our VFM conclusion.	Arrangements adequate

I have made recommendations in relation to the above issues in my detailed reports. You should take appropriate steps to ensure that these recommendations are implemented and obtain assurances from management that action plans are in place and that expected outcomes are being delivered.

Recommendation

R6 Track the implementation of the specific audit recommendations agreed with management and contained in the detailed VFM conclusion reports through the Audit and Risk Committee

Fees

I reported my planned audit fee in the January Audit Plan.

I expect to be able to complete the audit within the planned fee.

Table 8: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£309,150	£281,600	£281,600
Claims and returns	-	£ 46,500	£ 46,500
Non-audit work	-	-	-
Total	£309,150	£328,100	£328,100

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SLOUGH BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Slough Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Slough Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Slough Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Slough Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Slough Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 2 – Uncorrected errors

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter

Table 9: **Unadjusted errors in the financial statements**

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Property Plant and Equipment					
Property Plant and Equipment – Council dwellings	Correction of extrapolated error – writing down of assets				6,000
Property Plant and Equipment – Land and Property	Correction of extrapolated error – writing down of assets				8,280
Unusable reserves – capital adjustment account	Correction of extrapolated error – transfer of balance			8,280	

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
REFCUS					
2011-12 Statements:					
Balance sheet - PPE AUC	Revenue Expenditure Funded From Capital Under Statute (REFCUS) of £7,588k has been included in the CIES (Education and Children's Services) in 2011/12 and included as a transfer from Assets under Construction (AUC). The REFCUS has been reversed through the MIRS from the GF to the CAA.			7,588	
CIES - Education and Children's Services			7,588		
Balance sheet - CAA				7,588	
Balance sheet - General Fund					
Prior Period Adjustment for 2010/11:	This relates to 2010/11 REFCUS and as such should not be included in the 2011/12 accounts but should have been included in the 2010/11 accounts.				
CIES - Education and Children's Services	The REFCUS should be removed from 2011/12 and be included in the 2010/11 entries through a prior period adjustment.	7,588			
Balance sheet - PPE AUC					7,588
Balance sheet - General Fund				7,588	
Balance sheet - CAA					
Property Plant and	Correction of extrapolated error – writing down				6,000

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Equipment – Council dwellings	of assets				
Unusable reserves – capital adjustment account	Correction of extrapolated error – transfer of balance			6,000	
Cash at bank					
Balance sheet - bank overdraft	Write back of out of date un-presented cheques.			266	
CIES - Expenditure			266		
Cash flow statement					
Cash flow statement	Capital Grants credited to Provision of Services is shown as £27.936m in the cashflow statement, but £27,728k in the main financial statements - a difference of -£0.208m. Purchase of PPE is shown as £35.937m in the cashflow statement, but £36.939m in the main financial statements - a difference of £1.065m. The net difference is £0.857m.	N/A		N/A	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Table 10: **Agreed amendments to the primary statements**

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Income and Expenditure statement:					
Continuing operations: Exceptional item	Re-classification of non material income item originally incorrectly included as an exceptional item	159			
Continuing operations: Non distributable costs			159		
Other Operating Expenditure - Gains/losses on the disposal of non current assets (note 9)	Inclusion of proceeds on sale of HRA assets originally omitted	790			
Surplus/Deficit on Non-Current Assets (excl Investment properties) - Net proceeds from sale HRA (note 9)			790		


		Statement of comprehensive income and expenditure		Balance sheet	
Continuing operations: Non distributable costs	Removal of single sided entries in the draft accounts used as balancing figures. The overall effect is an increase in the general fund balance from £6,964k to £8,019k	1,419			
Continuing operations: Central Services to the public		409			
Comprehensive Income and Expenditure statement 2010-11 comparatives:					
Continuing operations: Cultural and related services	Re-statement of the comparatives showing the split of costs between new categories as required by the 2012 Code		17,521		
Continuing operations: Environment and regulatory services		14,871			
Continuing operations: Planning Services		2,650			
Balance Sheet:					
Unusable reserves	Correction of accounting for the element of self-financing of HRA properties funded from reserves			10,000	
Long term debtor					10,000
Unusable reserves -	Correction of miss-classified capital			301	

		Statement of comprehensive income and expenditure		Balance sheet	
Deferred capital receipts reserve (note 23)	receipt				
Long term debtor					301
Surplus on revaluation of non current asset	Revaluation adjustment in respect of Upton Court Park land	2.850			
Assets held for sale					2.850
Short term debtor	Re-classification of debtor as proceeds expected to be received within 12 months of balance sheet date			2.511	
Long term debtor					.2.511

Table 11: **Agreed amendments to the disclosure notes**

Note	Adjusted misstatement	Nature of adjustment	£000s
Note 15: Financial Instruments - Impairment of investments	Carrying amount of impaired investments at 31 March 2012 is understated.	Disclosed as £861k. Should be £972k	111
Note 15: Financial Instruments - Financial	Long term Creditors - Financial liabilities carried at	Disclosed as £50,690k. Should be £0	50,690

Instruments balances	contract amount		
Note 20: Creditors - Short Term Creditors:	Government Departments	Disclosed as £7,152k. Should be £6,993k	159
	Receipts in advance	Disclosed as £5,668k. Should be £5,089k	909
	Interest payable	Disclosed as £10k. Should be £30k	(20)
	Other	Disclosed as £32,244k. Should be £33,292k	(1,048)
Explanatory Foreword / Note 27: Amounts Report for Resource Allocation decisions	Total cost of services (Net expenditure)	Disclosed as £111,944k Adjustment required to agree to final out-turn report - at time of audit expected to be £102,938k	9,006
	The surplus/deficit on provision of services	Disclosed as £293,317k Adjustment required to agree to CI&ES balance of £292,307	1,010
Note 34: Related Party Transactions	Incorrect disclosure of amount paid to voluntary organisations for which 11 members have declared an interest.	Disclosed as £981k. Should be £1,028k	47
	Additional disclosure added in respect of Development Initiative for Slough Housing Company Limited	Additional disclosure	
Note 42: Contingent liabilities	Contingent liability added in respect of the Council's share of the former Berkshire County Council's estimated liability under the MMI Scheme of Arrangement. (NB	Disclosure note added	



This is in addition to the provision made separately by the Council, which relates to amounts paid by MMI directly on its behalf)

In addition to the adjustments detailed in Tables 10 and 11 above, there were a significant number of rounding, internal inconsistency, casting and disclosure errors in the draft financial statements that have now been corrected.

These are explained more fully in the section of my report where I consider the quality of your financial statements.

Appendix 4 – Draft letter of management representation

Chris Westwood
District Auditor

Audit Commission
Unit 5 Isis Business Centre,
Horspath Road, Cowley,
Oxford OX4 2RD

xx September 2012

Slough Borough Council - Audit for the year ended 31st March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, of Slough Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effect of uncorrected misstatement in the financial statements is not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

■

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Slough Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representations

[detail any specific representations to be made]

Signed on behalf of Slough Borough Council

I confirm that the contents of this letter were discussed and agreed by the Council on 27th September 2012.

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Management action should be taken in response to the issues highlighted above in order to address weaknesses in controls over; registration of land; review and clearance of out of date cheques; year end journal entries and NNDR and VO listing reconciliations.

Responsibility

Priority

Medium

Date

Comments

Recommendation 2

Management should carry out a detailed post completion review of its 2011/12 closedown process to identify what can be done better next year. This should include a critical evaluation of working paper requirements in line with the recommendations above and give consideration to introducing robust quality arrangements to ensure that high standards are maintained throughout the closedown programme and best results are achieved at the first attempt.

Responsibility

Priority

High

Date

Comments

Recommendation 3

Continue to receive management responses to emerging budgetary pressures and through your budgetary processes obtain assurance on a balanced financial position;

Responsibility

Priority Medium

Date

Comments

Recommendation 4

Monitor the delivery of departmental and management restructures and related workforce reforms to ensure that these are delivered on time and that they produce planned outcomes

Responsibility

Priority High

Date

Comments

Recommendation 5

Track delivery of the finance function forward plan, ensuring that permanent appointments to key posts are made as soon as possible and key deliverables and targets explicit within the plan are met.

Responsibility

Priority High

Date

Comments

Recommendation 6

Track the implementation of the specific audit recommendations agreed with management and

contained in the detailed VFM conclusion reports through the Audit and Risk Committee

Responsibility

Priority Medium

Date

Comments

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- any director/member or officer in their individual capacity; or
- any third party.



