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# Audit Plan 2012/13

REPORT TO THE AUDIT AND RISK COMMITTEE

Slough Borough Council

MARCH 2013



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## **Disclaimer**

The *Code of Audit Practice* and *Statement of Responsibilities of Auditors and Audited Bodies* issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members and officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

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# 1 Executive summary

We are pleased to present our Audit Plan for the year ended 31 March 2013. This plan summarises our proposed audit work for the year for Slough Borough Council, the significant risks that impact on our audit and our planned work in response to those risks.

## **AUDIT SCOPE AND RESPONSIBILITIES**

The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (March 2010)* and requires us to review and report on your:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in the use of resources

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge our businesses and this is expected to be completed in spring 2013.

## **RISK ASSESSMENT**

We have identified the following areas of significant risk that impact on our audit:

### **Financial statements**

- management override of controls
- revenue recognition
- accuracy and completeness of financial statement disclosures
- accuracy of records for property, plant and equipment and approach to componentisation
- maintaining the national non domestic rates system for valuation officer listings and reviewing reliefs in full accordance with the Government's guidance
- prior period adjustment reducing the amount of useable reserves available to the Council by £4.2 million
- procedures for identifying related party transactions and then disclosing these in the financial statements.

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### **Use of resources**

- managing future finding shortfalls through the medium term financial strategy
- performance monitoring and benefits realisation of outsourced services for transactional systems
- developing project management and governance arrangements for the local asset backed vehicle (LABV)
- setting up the Slough Wellbeing Board and developing appropriate arrangements to deliver its strategy
- implementing the new scheme for localisation of council tax benefit on 1 April 2013
- addressing and monitoring implementation of internal and external audit recommendations through the work of the Audit and Risk Committee.

### **REPORTING AND COMMUNICATIONS**

We will provide an opinion on your financial statements and a conclusion on your arrangements to secure economy, efficiency and effectiveness by 30 September 2013. We will provide our detailed report on findings and conclusions to the Audit and Risk Committee ahead of the reporting deadline and provide progress reports throughout the year.

In addition, we will provide an Annual Audit Letter summarising the key issues from our audit, as a public facing document to be included on your website. We will also provide a report summarising our grants certification work for the year.

### **FEES**

The proposed audit fee for the year is £184,960 plus VAT. The proposed fee has been increased above the Audit Commission's published scale fee of £168,960 by £16,000 to reflect the additional work required as a result of the significant audit risks we have identified.

The additional fee will be used as follows:

- £3,500 to carry out an early review of the draft financial statements, including the presentational and disclosure corrections made by the Council for errors and inconsistencies in the prior year financial statements
- £5,000 to undertake additional procedures to ensure the accuracy of the fixed asset register and the disclosure of property, plant and equipment balances in the financial statements
- £7,500 to review the Council's response to weaknesses evident in maintaining the national non domestic rates system and associated databases.

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The proposed fee for the certification of claims and returns is £19,150 plus VAT, which is the composite scale fee published by the Audit Commission for the Council.

The fees for 2012/13 audit have been reduced compared to the previous year to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

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## 2 Audit scope and responsibilities

### PURPOSE OF THIS REPORT

We are pleased to present our Audit Plan for the year ending 31 March 2013, to set out a mutual understanding of our respective responsibilities, and to promote effective two-way communication between us.

This plan summarises our proposed audit work for the year for Slough Borough Council, the significant risks that impact on our audit and our planned work in response to those risks.

The information and fees in this plan will be kept under review throughout the year and updated as necessary for any significant changes to risks and the focus of the audit, which will be reported to the Audit and Risk Committee.

### COMMUNICATION

Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence (below), audit planning information and significant risks (section 3) and findings from the audit (section 4).

### SCOPE OF THE AUDIT

The scope of the audit is determined by the Audit Commission’s *Code of Audit Practice for Local Government (March 2010)*, which describes how auditors carry out their functions as set out in the *Audit Commission Act 1998*. This requires us to review and report on your:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

### Financial statements

The financial statements audit is conducted in accordance with International Standards on Auditing (UK & Ireland)(ISAs), *Practice Note 10: audit of public sector bodies in the United Kingdom (Revised)* and guidance issued by the Audit Commission.

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## Use of resources

Our review of your arrangements to secure economy, efficiency and effectiveness is based on the follow two criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

## Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements. The WGA return is audited in accordance with Audit Commission specified procedures and requires additional assurance to confirm that counter-party data is properly and accurately recorded.

We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

## Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns above the audit threshold in accordance with the certification instructions issued by the Audit Commission.

We express a conclusion on whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

## RESPECTIVE RESPONSIBILITIES

The respective responsibilities of the Council and ourselves are set out in the *Statement of Responsibilities of Auditors and Audited Bodies (2010)* and *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, both available on the Audit Commission's website.

The Council remains responsible for: the preparation of the financial statements; for exercising its functions economically, efficiently and effectively; the preparation of the WGA return; and for preparing accurate grant claims and returns.

We are responsible for forming and expressing an opinion on these in accordance with the requirements of the *Code* and other guidance. Our audit responsibilities do not relieve you of your responsibilities.

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## INDEPENDENCE AND OBJECTIVITY

We consider there are no relationships between PKF or other member firms of the PKF International network and yourselves, including councillors, senior management and affiliates, which may reasonably be thought to bear upon our objectivity and independence as auditors.

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge out businesses and this is expected to be completed in spring 2013. The firm, under the BDO brand, will be a leading accountancy and business advisory firm, with some 3,500 people in the UK generating revenues approaching £400 million. The merger creates a financially strong business with significant sector and geographical coverage across the UK.

PKF has a significant presence in providing audit and assurance services to public sector entities, including local authorities. BDO offers a well regarded advisory and consultancy practice across the public sector. Our clients should see significant benefits arising from this merger in the depth and breadth of services available.

A copy of PKF's general policies and processes for maintaining objectivity and independence can be provided on request.

## CO-OPERATION WITH OTHER BODIES

The *Code* requires co-operation between auditors and other regulatory bodies including the National Audit Office to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors.

## QUALITY OF SERVICE

We are committed to providing a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Robert Grant in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.

If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the Audit Commission's complaints handling procedure is detailed on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints/>.



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# 3 Risk assessment

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of significant risk relevant to our audit responsibilities and reflecting this in the audit fees.

The determination of significant risks is a matter for auditors' professional judgment. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and monitor any areas of concern to the Council.

We detail below significant risks impacting on our audit of the financial statements or arrangements for securing economy, efficiency and effectiveness in the use of resources.

If you consider there to be other significant risks, whether due to fraud or error, please let us know.

## **FINANCIAL STATEMENTS**

We will plan and perform procedures designed to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error, thereby enabling us to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The applicable financial reporting framework is the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*.

We will obtain an understanding of the Council and the environment in which it operates, including the Council's internal controls and this, together with information obtained from discussions with management, provides a basis for identifying and assessing the risks of material misstatement.

## **Fraud risk assessment**

The primary responsibility for ensuring that your internal control frameworks are sufficient to prevent and detect fraud and corrupt practices lies with management and "those charged with governance" (the Audit and Risk Committee).

We have discussed possible risk of material misstatement arising from fraud with the Chief Executive, the Assistant Director of Corporate Resources, the Assistant Director of Finance, Head of Corporate Fraud and Risk Assessment and the Chairman of the Audit and Risk Committee.

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Each has confirmed that they are not aware of any actual, suspected or alleged instances of fraud during the financial year other than a number of cases of housing and council tax benefit fraud committed against the Council by benefit claimants.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and which we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

## **Significant risks**

We have identified areas of significant risk that impact on our audit. These, and other proposed work to respond to such risks, are set out below.

### **Management override of controls**

ISA (UK&I) 240 *The auditor's responsibilities in relation to fraud in an audit of financial statements* requires us to presume that a risk of management override of controls is present and significant in all entities.

We are required to respond to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will review accounting estimates for evidence of possible bias and obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. We are also required to consider the need to perform other additional procedures to respond to the identified risk of management override of controls.

### **Revenue recognition**

ISA (UK&I) 240 requires us to presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. As a consequence our audit work will be designed to focus on these areas.

### **Financial statements disclosures**

The predecessor auditors reported there was scope for improvement in the quality of the financial statements presented for audit in the prior year. A significant number of presentational and disclosure errors were identified, including inconsistencies between balances in the financial statements. The position affected the primary statements and the supporting notes.

The Council has taken action to strengthen the capacity of the finance team designed to address this issue.

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However, until improved outcomes can be fully demonstrated, there is an audit risk regarding the accuracy and completeness of disclosures in the 2012/13 financial statements. An example of an improved outcome is that all disclosure notes are consistent with the primary statements.

We will work with the finance team to ensure that issues identified in the prior year audit are addressed in preparing the 2012/13 financial statements. Specific work includes carrying out an early review of the draft financial statements against the requirements of the *Code of practice for Local Authority Accounting 2012/13*.

### **Property, plant and equipment**

The prior year audit identified a number of issues in respect of property, plant and equipment balances and disclosures, including:

- disposals of assets that had not been removed from the Council's accounts, resulting in an overstatement of property, plant and equipment balances
- incomplete registrations with the Land Registry and insufficient evidence of ownership for properties included in the fixed assets register
- ensuring assets are valued in accordance with the Council's policies (and CIPFA's *Code* requirements)
- incomplete depreciation charges on infrastructure assets.

Management has informed us action has been taken to address these weaknesses. There is a risk that cumulatively, these issues may result in a material misstatement of property, plant and equipment balances if not fully addressed before preparing the 2012/13 accounts.

The Council's stated policy is that property, plant and equipment assets should be componentised, for the purposes of calculating depreciation, where an individual item has a value in excess of 25 per cent of the total carrying value of the asset. To date, the Council has not componentised any assets. We are informed the Council is revising its policy for 2012/13, although we have not yet received full details of the revised approach.

In the absence of evidence to support the Council's approach to componentisation of its buildings and dwellings, there is a risk that the annual depreciation charge and therefore the value of property, plant and equipment, may be materially misstated.

We will carry out early audit procedures to review the accuracy and completeness of the fixed asset register and the processes established for the valuation of the Council's properties. In doing so, we will seek to rely on any relevant work carried out by internal audit. We will also review the evidence provided by the Council to support management's approach to componentising its buildings and dwellings.

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### **National non domestic rates (NNDR)**

The prior year audit found that reconciliations of valuation officer listings to the NNDR system had not been performed regularly during the year. In addition, internal audit has identified weaknesses in controls over the authorisation and confirmation of on-going entitlement to reliefs granted to business ratepayers.

We will obtain a full understanding of the process to update the NNDR system from valuation officer listings and to account for any identified differences. We will also test a sample of reliefs and rateable values used to assess business rates for properties.

### **Prior period adjustment to reserves**

The Council has identified that a journal (value £4.2 million) processed during the financial closedown in 2011/12, relating to a premium on early redemption of debt, should not have been raised. The journal overstated the debit balance on the financial instruments adjustment account and overstated other useable reserves as at 31 March 2013. A prior period adjustment is required to the opening balances in the 2012/13 financial statements to correct the error.

There is a risk that the Council does not process the prior period adjustment correctly or make the required disclosures in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

We will check that the appropriate adjustments have been made to the opening balances within the financial statements and that the prior period adjustment has been adequately disclosed.

### **Related party disclosures**

The predecessor auditors reported that the Council's approach to identifying and disclosing related parties was inadequate and a number of errors were identified in the disclosures within the financial statements. In addition, internal audit has identified weaknesses in the Council's processes for declarations of Members' and officers' interests. There is a risk that related party disclosures in the financial statements may not be complete or accurate.

We will review the Council's processes for identifying related party relationships and transactions and carry out tests to check the completeness of these disclosures.

### **Internal control**

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

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## Internal audit

It is our intention to use the work of your internal auditors in reaching our audit conclusions. We will be seeking to use work performed on the Council's financial systems.

## Reliance on management experts

Where the financial statements include amounts included by management that have been derived from information or estimates provided by experts, we may seek to place reliance on that work in obtaining audit evidence. As part of our work we expect to obtain assurance on the work undertaken by the following experts:

- valuation of land, buildings and dwellings and estimated economic useful life provided by qualified valuers
- valuation of pension liabilities and share of the scheme assets provided by your actuary
- fair value calculations and disclosures for financial instruments carried at amortised cost, including investments and borrowings, provided by your treasury advisers
- valuation of provisions for insurance and other claims against the Council provided by qualified actuaries.

## Materiality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

## USE OF RESOURCES

We will plan and perform procedures designed to obtain reasonable assurance that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources. In meeting this responsibility, we will review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements and report on these arrangements.

In doing so, we have regard to the criteria specified by the Audit Commission.

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## Significant risks

We have undertaken our value for money risk assessment for 2012/13. This takes into account matters arising from the 2011/12 audit carried out by the predecessor auditors and additional audit knowledge gained from our liaison meetings and planning processes. We have also considered the impact of other regulators' work as part of our evaluation of the arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have identified areas of significant risk that impact on our audit. These, and our proposed work to respond to such risks, are set out below.

### **Medium term financial strategy**

The Government continues to reduce funding for local government over the Spending Review period. Combined with additional pressures arising from demographic and other changes, further risks are emerging for all councils to balance their financial positions over the medium and longer term planning horizons.

Changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health to local authorities such as Slough, provide further uncertainties to medium term financial planning.

The Council expects to exceed its savings target of £8.3 million for the 2012/13 year and savings schemes of £16.5 million have been identified for the three years to 2015/16. However, management has reported an overall budget shortfall of £9.9 million for the three year period and work continues to balance the budget and resolve uncertainties surrounding the Council's core income streams.

We intend to review the Council's medium term financial strategy to assess how well it is addressing financial pressures. We will also review work carried out by internal audit on the robustness of the Council's processes for budget setting, budgetary control, cost improvement plan delivery and service planning.

### **Outsourced service for transactional systems**

In April 2012 the Council transferred its transactional services including council tax, business rates, housing and council tax benefits, payroll, accounts payable and accounts receivable to a transactional hub provided by an external contractor.

We will review internal audit's work on the effectiveness of performance monitoring of the transferred services and assess the Council's processes for ensuring it is realising the expected benefits and fixed cost savings from the arrangement.

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### **Local asset backed vehicle (LABV)**

The Cabinet has approved the creation of a LABV, a joint venture involving a private sector partnership. The LABV will oversee investment in agreed community and commercial projects with the aim of improving the quality of infrastructure and buildings throughout the borough. Increasing the supply of housing and future capital receipts revenue income flows for the Council are other key aims of the joint venture.

As a 50 per cent partner in the LABV, the Council will share the risks and rewards of the partnership, including any residual surplus from the proceeds of commercial developments.

We will review the project management and governance arrangements being developed for the partnership, the financial implications and the Council's processes for considering value for money aspects.

### **Slough Wellbeing Board**

Health and Wellbeing Boards will assume their full statutory powers from 1 April 2013, bringing together aspects of local government services and the NHS, with the input of local people.

The Council will need to ensure that it is adequately prepared to manage the risks identified by the Shadow Wellbeing Board to the achievement of outcomes for the Slough area.

We will assess the progress made in setting up the Slough Wellbeing Board, including how well engagement is taking place with partners, and the development of arrangements to support the delivery of the Board's strategy.

### **Localisation of council tax benefit**

In March 2012 the parliamentary bill, Welfare Reform Act 2012, was approved and it abolishes the current council tax benefit arrangements and introduces a local council tax support scheme which will need to be administered by local authorities from 1 April 2013.

The Local Government Finance Act 2012 sets out a framework for this new scheme and local authorities were required to develop and approve a scheme by 31 January 2013 which qualifies for the additional funding made available by the Department for Communities and Local Government. The Slough scheme was approved in accordance with the Government's timetable.

We will monitor the Council's implementation of the new scheme and consider the risks to achieving the Council's targets for administering benefit.

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### **Audit recommendations**

Internal audit has issued a number of reports in the year that have resulted in 'red rated' (negative) or 'amber rated' (improvement needed) opinions, including reports covering financial governance in schools, declarations of Member and officer interests, the business rates system and contract management.

In addition, the predecessor auditors raised a number of recommendations in respect of the Council's procurement procedures.

We understand that officers are working to address these recommendations and that arrangements are being established to record and monitor progress made against audit recommendations.

We will review these follow-up procedures and assess the impact of any remaining outstanding actions on the Council's control environment.

### **Other use of resources work**

We will review the Audit Commission's Value for Money Profile Tool and its Financial Ratios Tool to identify any areas of concern over costs and performance data and discuss the findings with management.



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# 4 Reporting and communications

## COMMUNICATION

During the course of our work, we will communicate to you relevant matters relating to the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you.

Communication may take the form of discussions or, where appropriate, be in writing.

If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as practicable.

Our contacts for communications will be the Chief Executive, the Assistant Director of Corporate Resources and the Audit and Risk Committee. When communicating with this Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

## FINDINGS FROM THE AUDIT

As required by auditing standards and the *Code*, we will communicate the following matters to you, where applicable:

- significant deficiencies in internal control identified during the audit
- significant qualitative aspects of the Council's accounting practices including the application of the applicable financial reporting framework
- significant matters discussed, or subject to correspondence with management or other employees
- uncorrected misstatements (see below)
- material misstatements that have been corrected by management
- other significant matters relevant to the financial reporting process
- material uncertainties relating to going concern
- written representations that we are requesting from you or from other parties
- expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor's report
- significant difficulties that we have encountered during the course of the audit

- any matters that prevent us from being satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources
- any matters reported in the public interest
- any recommendations made under section 11(3) of the Audit Commission Act 1998.

## UNCORRECTED MISSTATEMENTS

We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £125,000 to be trivial, unless the misstatement is indicative of fraud.

We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements are corrected.

## AUDIT TEAM

The following staff will be involved in the audit throughout the year:

<p><b>Robert Grant</b> – Engagement partner email: robert.grant@uk.pkf.com Tel: 0207 065 0170</p>	<p>Responsible for delivering the audit in line with the <i>Code</i>, including agreeing the Audit Plan, Governance Report and any other reports.</p> <p>Also responsible for signing opinions and conclusions.</p>
<p><b>Janine Combrinck</b> – Director email: janine.combrinck@uk.pkf.com Tel: 0207 065 0440</p>	<p>Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output.</p> <p>Also responsible for liaison with the senior management and the audit, Best Value and Community Services Scrutiny Committee.</p>
<p><b>Neil Jenner</b> – Assistant manager email: neil.jenner@uk.pkf.com Tel: 01473 320 806</p>	<p>Responsible for managing the delivery of our audit fieldwork on site.</p>

## TIMETABLE AND OUTPUTS

Area of audit	Fieldwork	Reporting
<b>Financial statements</b>		
Review of internal controls	March - June 2013	30 September 2013
Final audit of the financial statements	July - August 2013	30 September 2013
Report on the consistency of the WGA return	August - September 2013	4 October 2013
<b>Use of resources</b>		
Review of economy, efficiency and effectiveness in the use of resources	January - April 2013	30 September 2013
<b>Certification of grants and returns</b>		
Audit of grant claims and returns	July - November 2013	Departmental deadlines
<b>Reporting</b>		
Report on any significant deficiencies in internal controls (if required)		25 June 2013
Governance report to the Audit and Risk Committee		19 September 2013
Annual Audit Letter		October 2013
Certification of grants and returns report		January 2014

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

# 5 Fees

## PROPOSED FEES

The proposed *Code* audit fee for the year is £184,960 plus VAT. The proposed fee has been increased above the Audit Commission's published scale fee of £168,960 by £16,000 to reflect the additional work required as a result of the significant audit risks.

The additional fee will be used as follows:

- £3,500 to carry out an early review of the draft financial statements, including the presentational and disclosure corrections made by the Council for errors and inconsistencies in the prior year financial statements
- £5,000 to undertake additional procedures to ensure the accuracy of the fixed asset register and the disclosure of property, plant and equipment balances in the financial statements
- £7,500 to review the Council's response to weaknesses evident in maintaining the national non domestic rates system and associated databases.

The proposed fee for the certification of claims and returns is £19,150 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

The fee is analysed by audit area as follows:

Area of audit	2011/12 fee £	2012/13 fee £
Proposed fee	281,600	168,960
Additional risks work	-	16,000
Total <i>Code</i> fee	281,600	184,960
Certification of grants and returns	35,226	19,150
Total	316,826	204,110

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## NON-AUDIT WORK

At management's request we carried out a high level review of the proposed structure of the Council's local asset backed vehicle (LABV). We provided comments on the principal risks identified from the high level review, made observations (for management to consider based on that review) and reviewed and commented on the tax implications as they impact on the local authority.

Our fee for this review was £10,000, excluding travel disbursements.

We wrote to the Chairman of the Audit and Risk Committee In December 2012 and confirmed the review did not compromise our independence and objectivity as auditors of the Council.

We have not proposed undertaking any other non-audit work. Any proposal will be discussed with management and then reported to the Audit and Risk Committee.

## QUESTIONS AND OBJECTIONS

Should any arise, time spent dealing with questions and objections will be billed separately under the *Code* audit fee. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

## ASSUMPTIONS

The fees detailed above are based on the following assumptions:

- internal audit will have completed its systems testing in accordance with the plans and agreed timetable, to an adequate standard, and we are able to place full reliance on this work
- there are no significant changes to your main financial systems or internal controls
- you will provide the information requested in our records required listing in accordance with the agreed deadlines and that there will be no significant departures from the timetable
- the 2012/13 financial statements are produced effectively and a good quality draft provided to us in accordance with the Council's closedown timetable
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to Audit Commission or National Audit Office instructions or guidance.

The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit.

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Subject to prior approval by the Audit Commission, we reserve the right to increase fees, should the above assumptions not be met or where we encounter unexpected problems, or issues arise, that cause significant additional work. Time spent dealing with problems or matters arising are usually that of senior people and hence the cost will often, necessarily, be disproportionate to the original fee.

We are currently carrying out a risk assessment of the Council's IT systems as part of our planning for the audit. Our preliminary work indicates that there may be scope for improvement in certain areas. We will discuss the findings with management and should this result in any significant audit risks and additional audit work, we will agree an additional fee with you.

## **HOW TO REDUCE THE FEE**

The Council may be able to avoid any fee increases in 2012/13 or reduce the audit fee in future years by:

- implementing effective arrangements for maintaining the integrity of the fixed assets register
- implementing effective controls for the reconciliation of valuation officer listings to the national non domestic rates system
- improving the accounts closedown procedures, including quality assurance
- checks on the draft financial statements, thereby reducing the number of errors and inconsistencies in the financial statements
- providing comprehensive working papers on a timely basis.

## **BILLING ARRANGEMENTS**

The *Code* audit fee will be billed as £84,480 in December 2012, £84,480 in March 2013 and £16,000 in August 2013.

Fees for certification of grants and returns will be billed upon completion of each relevant return.

# Appendix A – Risk assessment

	Audit risk identified from planning	Area and assertions	Audit response
<b>FINANCIAL STATEMENTS</b>			
1	<p><b>Management override</b></p> <p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p>	Financial statement level risk across all account headings and assertions	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
2	<p><b>Revenue recognition</b></p> <p>Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	Occurrence, accuracy and completeness of income	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
3	<p><b>Financial statement disclosures</b></p> <p>The predecessor auditors reported there was scope for improvement in the quality of the financial statements presented for audit in the prior year. A significant number of presentational and disclosure errors were identified, including inconsistencies between balances in the financial statements. The position affected the primary statements and the supporting notes.</p> <p>The Council has taken action to strengthen the capacity of the finance team designed to address this issue.</p> <p>However, until improved outcomes can be fully demonstrated, there is an audit risk regarding the accuracy and completeness of disclosures in the 2012/13 financial statements. An example of an improved outcome is that all notes are consistent with the primary statements.</p>	Completeness and accuracy of financial statement disclosures	<p>We will work with the finance team to ensure that issues identified in the prior year audit are addressed. Specific work includes:</p> <ul style="list-style-type: none"> <li>• PKF carrying out an early review of the draft financial statements against the requirements of the Code of practice for Local Authority Accounting 2012/13</li> <li>• PKF undertaking early review of any contentious issues and proposed accounting treatment in the lead up to the accounts closedown process.</li> </ul>

	Audit risk identified from planning	Area and assertions	Audit response
4	<p><b>Property, plant and equipment</b></p> <p>The prior year audit identified a number of issues in respect of property, plant and equipment balances and disclosures, including:</p> <ul style="list-style-type: none"> <li>• disposals of assets that had not been removed from the Council's accounts, resulting in an overstatement of property, plant and equipment balances</li> <li>• incomplete registrations with the Land Registry and insufficient evidence of ownership for properties included in the fixed assets register</li> <li>• ensuring assets are valued in accordance with the Council's policies (and CIPFA's Code requirements)</li> <li>• incomplete depreciation charges on infrastructure assets.</li> </ul> <p>Management has informed us action has been taken to address these weaknesses. There is a risk that cumulatively, these issues may result in a material misstatement of property, plant and equipment balances if not fully addressed before preparing the 2012/13 accounts.</p> <p>The Council's stated policy is that property, plant and equipment assets should be componentised, for the purposes of calculating depreciation, where an individual item has a value in excess of 25 per cent of the total carrying value of the asset. To date, the Council has not componentised any assets. We are informed the Council is revising its policy for 2012/13, although we have not yet received full details of the revised approach.</p> <p>In the absence of evidence to support the Council's approach to componentisation of its buildings and dwellings, there is a risk that the annual depreciation charge and therefore the value of property, plant and equipment, may be materially misstated.</p>	<p>Existence, rights and valuation of property, plant and equipment</p>	<p>We will carry out early audit procedures to review the accuracy and completeness of the fixed asset register and the processes established for the valuation of the Council's properties. In doing so, we will seek to rely on any relevant work carried out by internal audit.</p> <p>We will also review the evidence provided by the Council to support management's approach to componentising its buildings and dwellings and carry out early discussions with officers, to determine whether there is a risk of material misstatement of the depreciation charge, and therefore the value of property, plant and equipment.</p>
5	<p><b>National non domestic rates (NNDR)</b></p> <p>The prior year audit found that reconciliations of valuation officer listings to the NNDR system had not been performed regularly during the year. In addition, internal audit has identified weaknesses in controls over the authorisation and confirmation of on-going entitlement to reliefs granted to business ratepayers. These control weaknesses indicate a risk that NNDR collection amounts and contributions to the national pool may not be based on the most up to date information.</p>	<p>Completeness, occurrence and accuracy of NNDR collections and contributions to the national pool</p>	<p>We will obtain a full understanding of the process to update the NNDR system from valuation officer listings and to account for any identified differences.</p> <p>We will substantively test a sample of reliefs to ensure that these are correctly applied. We will also carry out tests to check the accuracy of the rateable values used to assess business rates for properties.</p>



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6	<p><b>Prior period adjustment to reserves</b></p> <p>The Council has identified that a journal (value £4.2 million) processed during the financial closedown in 2011/12, relating to a premium on early redemption of debt, should not have been raised. The journal overstated the debit balance on the financial instruments adjustment account and overstated other useable reserves as at 31 March 2012. A prior period adjustment is required to the opening balances in the 2012/13 financial statements to correct the error.</p> <p>There is a risk that the Council does not process the prior period adjustment correctly or make the required disclosures in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	Valuation (allocation) of opening reserves balances and completeness of disclosures	We will check that the appropriate adjustments have been made to the opening balances within the financial statements and that the prior period adjustment has been adequately disclosed.
7	<p><b>Related party disclosures</b></p> <p>The predecessor auditors reported that the Council's approach to identifying and disclosing related parties was inadequate and a number of errors were identified in the disclosures within the financial statements. In addition, internal audit has identified weaknesses in the Council's processes for declarations of Members' and officers' interests.</p> <p>There is a risk that related party disclosures in the financial statements may not be complete or accurate.</p>	Completeness and accuracy of related party transactions	<p>We will review the Council's processes for identifying related party relationships and transactions.</p> <p>We will substantively test a sample of related party relationships to ensure that all declarations have been made to the Council and that the related party disclosures in the financial statements are complete.</p>
<b>USE OF RESOURCES</b>			
8	<p><b>Medium term financial strategy</b></p> <p>The Government continues to reduce funding for local government over the Spending Review period. Combined with additional pressures from demographic and other changes, further risks are emerging for all councils to balance their financial positions over the medium and longer term planning horizons. Changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health to local authorities such as Slough, provide further uncertainties to medium term financial planning.</p> <p>The Council expects to exceed its savings target of £8.3 million for the 2012/13 year and savings schemes of £16.5 million have been identified for the three years to 2015/16. However, management has reported an overall budget shortfall of £9.9 million for the three years and work continues to balance the budget and resolve uncertainties surrounding the core income streams.</p>	Financial resilience	We intend to review the Council's medium term financial strategy to assess how well it is addressing financial pressures. We will also review work carried out by internal audit on the robustness of the Council's processes for budget setting, budgetary control, cost improvement plan delivery and service planning.

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9	<p><b>Outsourced service for transactional systems</b></p> <p>In April 2012 the Council transferred its transactional services including council tax, business rates, housing and council tax benefits, payroll, accounts payable and accounts receivable to a transactional hub provided by an external contractor.</p>	Securing economy, efficiency & effectiveness	We will review internal audit's work on the effectiveness of performance monitoring of the transferred services and assess the Council's processes for ensuring it is realising the expected benefits and fixed cost savings from the arrangement.
10	<p><b>Local asset backed vehicle (LABV)</b></p> <p>The Cabinet has approved the creation of a LABV, a joint venture involving a private sector partnership. The LABV will oversee investment in agreed community and commercial projects with the aim of improving the quality of infrastructure and buildings throughout the borough. Increasing the supply of housing and future capital receipts revenue income flows for the Council are other key aims of the joint venture.</p> <p>As a 50 per cent partner in the LABV, the Council will share the risks and rewards of the partnership, including any residual surplus from the proceeds of commercial developments.</p>	Securing economy, efficiency & effectiveness	We will review the project management and governance arrangements being developed for the partnership, the financial implications and the Council's processes for considering value for money aspects.
11	<p><b>Slough Wellbeing Board</b></p> <p>Health and Wellbeing Boards will assume their full statutory powers from 1 April 2013, bringing together aspects of local government services and the NHS, with the input of local people.</p> <p>The Council will need to ensure that it is adequately prepared to manage the risks identified by the Shadow Wellbeing Board to the achievement of outcomes for the Slough area. We</p>	Securing economy, efficiency & effectiveness	We will assess the progress made in setting up the Slough Wellbeing Board, including how well engagement is taking place with partners, and the development of arrangements to support the delivery of the Board's strategy.
12	<p><b>Localisation of council tax benefit</b></p> <p>In March 2012 the parliamentary bill, Welfare Reform Act 2012, was approved and it abolishes the current council tax benefit arrangements and introduces a local council tax support scheme which will need to be administered by local authorities from 1 April 2013.</p> <p>The Local Government Finance Act 2012 sets out a framework for this new scheme and local authorities were required to develop and approve a scheme by 31 January 2013 which qualifies for the additional funding made available by the Department for Communities and Local Government. The Slough scheme was approved in accordance with the Government's timetable.</p>	Financial resilience Securing economy, efficiency & effectiveness	We will monitor the Council's implementation of the new scheme and consider the risks to achieving the Council's targets for administering benefit.

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13	<p><b>Audit recommendations</b></p> <p>Internal audit has issued a number of reports in the year that have resulted in 'red rated' (negative) or 'amber rated' (improvement needed) opinions, including reports covering financial governance in schools, declarations of Member and officer interests, the business rates system and contract management. In addition, the predecessor auditors raised a number of recommendations in respect of the Council's procurement procedures. We understand that officers are working to address these recommendations and that arrangements are being established to record and monitor progress made against audit recommendations.</p>	<p>Securing economy, efficiency &amp; effectiveness</p>	<p>We will review these follow-up procedures and assess the impact of any remaining outstanding actions on the Council's control environment.</p>