



# SLOUGH BOROUGH COUNCIL

INTERIM REPORT TO THE AUDIT AND RISK COMMITTEE

Audit for the year ended 31 March 2013

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# Significant Matters for the attention of those charged with governance

We present this interim report to the Audit and Risk Committee on 19 September. Our audit work remains in progress and we will not meet the statutory deadline of 30 September 2013 for giving an opinion on your financial statements. We are discussing with management a revised timetable for completing our audit and reporting outcomes. A further report will be made to the Audit and Risk Committee and the Council in due course.

Our review of the Council's arrangements for securing value for money is complete and we anticipate issuing an unqualified value for money conclusion.

## Background to the 2012/13 audit of Slough Borough Council

BDO LLP (previously PKF [UK] LLP) was appointed to undertake the external audit of the Council with effect from 1 April 2012. Members will be aware the Council has previously found difficulty in achieving national and local timetables for producing the annual financial statements effectively. The predecessor auditors delayed completing the audit of the financial statements in 2010/11 and in 2011/12, recommended the Finance Team should reduce its reliance on interim staff in key finance posts to assist in resolving such difficulties. Our 2012/13 audit plan, presented to the Audit and Risk Committee in March 2013, therefore identified the preparation of the financial statements as a significant audit risk. We also wrote to the Committee on 25 July 2013 to highlight our financial statements audit planning identified a new, pervasive audit risk affecting the opening balances (2011/12 closing balances) included in the 2012/13 financial statements.

We prepared a detailed schedule of working papers and the audit trails we expected to receive with the draft financial statements. We requested a substantial amount of information officers told us they had not previously been asked to produce by its external auditors. We recognise our requests represented a significant change for finance staff involved in the accounts production process. We provided our schedule of working paper requirements to officers on 28 January 2013, well in advance of the Council's accounts closedown timetable commencing. The Council provided the draft financial statements to us on 1 July 2013, in accordance with the closedown timetable. The requirements of the Accounts and Audit Regulations for the Chief Finance Officer to certify the accounts by 30 June 2013 were met. The Council therefore improved its performance compared to previous years by achieving these deadlines. In preparing the draft financial statements, officers produced the working papers and audit trails based on the requirements of the predecessor auditors. Not all of the information we requested was produced at the outset of the audit. Substantial delays were therefore encountered in progressing audit work.

While the Council met published deadlines, it did not allow sufficient time to undertake a critical review of the draft financial statements before submission to audit. The incoming Finance Team identified there was insufficient transfer of detailed, operational knowledge about the problems previously encountered in closing the accounts or the new closedown timetable put in place to address the situation. In addition, the new Finance Team had little opportunity to review and understand Slough's approach to the more complex transactions contained in the financial statements before the closedown timetable commenced.

Our review of the draft financial statements found a high number of presentational errors and inconsistencies and we noted the requirements of certain accounting standards had not been fully followed. We reported such matters in the updated risk assessment included in our letter to the Audit and Risk Committee on 25 July. Our detailed audit work has identified further material errors in the presentation of the financial statements in addition to the errors in the prior period accounts identified by management in closing the accounts. Some of the errors we identified affect the prior period statements, and substantial amendments and additional disclosures are therefore required. Officers are progressing this work and we will review the amendments made to the financial statements as errors are corrected. However, our audit work remains in progress and further errors may be found.

## Next steps

We are working with the Finance Team to agree a completion timetable and arrangements for receiving our audit reports.

# Summary of key audit findings as at 13 September 2013

The table below summarises the results of our audit work as at 13 September 2013.

| AREA OF AUDIT                | SUMMARY  |
|------------------------------|--|
| Financial statements         | <p>As at 13 September 2013, the following material and other significant misstatements have been found in the draft financial statements. Some of the misstatements were identified by management in closing the accounts (as highlighted):</p> <ul style="list-style-type: none"> <li>• £15.4 million misclassification of recharged Non Distributed Costs and other support costs in the Comprehensive Income and Expenditure Statement</li> <li>• £9.9 million imbalance in the Movement in Reserves Statement as a result of expenditure omitted from the 2011/12 Comprehensive Income and Expenditure Statement (identified by management)</li> <li>• £4.3 million overstatement of the debit balance on the financial instruments adjustment account and the credit balance on earmarked reserves at 1 April 2012 (identified by management)</li> <li>• £5.5 million loss on derecognition of replaced components of council dwellings misclassified as impairments during 2012/13; this expenditure was omitted from the presentation of the Housing Revenue Account (HRA)</li> <li>• £3.4 million overstatement of property, plant and equipment at 1 April 2012 for a voluntary aided school which had not been removed from the Balance Sheet in prior years</li> <li>• £2.5 million overstatement of deferred capital receipts (unusable reserves) and short term debtors at 1 April 2012 in respect of the sale of land where contracts had not been completed</li> <li>• £6 million overstatement of long term debtors and the capital adjustment account for assets that the Council is leasing out under operating leases</li> <li>• a number of amendments to the Collection Fund, including a £5 million decrease to the amount disclosed for income collectable from business ratepayers</li> <li>• the HRA was extensively amended and the deficit for the year disclosed in the draft financial statements was reduced by £3.304 million, although the impact on the closing HRA balance is a reduction of only £294,000.</li> </ul> <p>In addition our audit identified a high number of material and other significant misstatements in the notes and other disclosures in the financial statements, including the overstatement of gross cost/valuation and accumulated depreciation in the Property, Plant and Equipment notes (£18.5 million at 1 April 2012 and by a further £6 million at 31 March 2013). The net book value of fixed assets is unaffected by this error.</p> |
| Unadjusted audit differences | <p>We will notify the Council about any unadjusted audit differences when our audit work is completed.</p> <p>An unadjusted error of £266,000 in the prior year, reported by the predecessor auditors, was corrected by the Council in the current year. However, it will be included in the schedule of uncorrected audit differences to show the impact on expenditure between financial years.</p>  |

| AREA OF AUDIT                      | SUMMARY   |
|------------------------------------|---|
| Internal controls                  | <p>The following issues have been noted where there were significant deficiencies in financial controls during the year. Some weaknesses were previously reported by Internal Audit:</p> <ul style="list-style-type: none"> <li>weaknesses in the Council's arrangements for maintaining the fixed asset register</li> <li>weaknesses in the Council's controls over the authorisation and confirmation of on-going entitlement to reliefs granted to business ratepayers (previously reported by Internal Audit)</li> <li>weaknesses in the arrangements for declaring Members' and officers' interests (previously reported by Internal Audit) although this issue has now been substantially addressed.</li> </ul> <p>A number of other areas for improvement were identified, which we discussed with management.</p>   |
| Annual Governance Statement        | <p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p>  |
| Whole of Government Accounts (WGA) | <p>We have not yet received the Council's WGA return. The findings from our review of the consistency of this return with the audited financial statements will be circulated to members of the Audit and Risk Committee before the 4 October 2013 submission deadline, subject to completion of outstanding audit work and receipt of satisfactory revised financial statements and WGA return.</p>  |
| Use of resources                   | <p>We note the following key observations made during the course of our audit:</p> <ul style="list-style-type: none"> <li>the Council has generally adequate arrangements in place for financial governance, financial planning and financial control and there are some strengths in the Council's arrangements for managing its budgets</li> <li>action is needed to further strengthen arrangements for preparing the annual financial statements and to embed these effectively</li> <li>the medium term financial strategy indicates that the financial position is balanced for the 2013/14 period. There is a cumulative resource gap of £18.5 million for the following four years. Ensuring financial balance over the medium term planning horizon will continue to require strong leadership and action by the Council</li> <li>the Council has appropriate governance and performance monitoring arrangements in place for managing its contract with the transactional hub provider. Management has reported a number of positive achievements for the first year of the Partnership's operation</li> <li>the Council is aware of the key risks associated with the Slough Regeneration Partnership and is taking appropriate steps to mitigate these. Work is underway to review the Council's governance arrangements to ensure these consistently support the work of the partnership and achievement of Slough's priorities for the area</li> <li>the Council has taken appropriate steps to establish the Slough Wellbeing Board with its partners</li> <li>the Council has implemented a local Council Tax support scheme to replace the previous Council Tax benefit scheme in accordance with the national timetable</li> <li>management has implemented a process to log and track Internal Audit recommendations in the 2013/14 year. Further work is required to ensure that all outstanding high priority recommendations are addressed as a matter of urgency, particularly in respect of weaknesses in the governance, procurement and financial management arrangements within schools under the control of the Council (as identified by Internal Audit).</li> </ul> |
| Value for Money Conclusion         | <p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. We propose issuing an unqualified value for money conclusion.</p>   |

# USE OF RESOURCES - KEY AUDIT MATTERS

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting 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.

The focus of the criteria for 2012/13 is:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
- undertaking other local risk-based work, as appropriate.

## Financial resilience

Our financial resilience risk assessment considered the Council's arrangements for financial governance, financial planning and financial control. Our detailed work also considered the Council's arrangements for managing financial risks and opportunities and securing future financial stability.

Our risk based planning identified that the Council needed to address identified budget shortfalls and manage the uncertainties over future income streams.

### Key Findings

The Council's financial governance arrangements provide clear leadership on financial matters through the work of the Cabinet and the Corporate Management Team. The Council's financial performance and associated financial risks are consistently understood across the organisation with financial information regularly reported to the Cabinet and the Overview and Scrutiny Committee. Amongst officers, financial responsibilities are clearly assigned and the Corporate Management Team oversees the corporate response to expenditure pressures, other financial risks emerging in the year and the overall achievement of the annual budget. Financial training courses are provided to employees managing budgets and Members are also periodically invited to attend financial presentations.

## Audit issues and impact on opinion

Resource gaps have been identified for the period 2014/15 to 2016/17, where savings plans have not yet been identified. Ensuring financial balance over the medium term planning horizon will continue to require strong leadership and action by the Council.

Action is needed to further strengthen arrangements for preparing the annual financial statements and to embed these effectively

Financial Planning is embedded across the organisation through the annual budget setting process. The process is set out within the Medium Term Financial Strategy (MTFS), which provides an overview of the key stages and the associated timeframe and defines the framework and financial envelope within which the budget is set. The MTFS also defines the roles and responsibilities of the internal and external forums involved in the consultation on, and the approval of the budget at key stages. As part of this process, officers are required to develop savings proposals, which are presented to the Corporate Management Team and then Members, where achievability is challenged. The MTFS covers a five year period and is updated annually for approval by the Council in February each year. Reports on progress made in updating the MTFS are presented to Cabinet periodically throughout the year.

The Council's arrangements for ensuring financial control are effective and Internal Audit provided 'substantial' assurance over budgetary control and management accounts reporting procedures for 2012/13. Budget reports are considered monthly by Directorate Management Teams and this is supported by an established budget monitoring process by managers and finance staff. The Corporate Management Team receives monthly reports setting out key issues, risk areas and progress to resolve issues and quarterly reports providing a full analysis of Directorate performance.

Overall the Council achieved its budget plans for the year. An overspend was reported by the Children and Families Directorate due to increasing demand for services and the additional investment required to ensure the improvement plan for the service was progressed. Positively, the Council exceeded its £8.3 million savings target for the year, mainly due to the early implementation of savings schemes in Adult Social Care services. The general fund balance as at 31 March 2013 (per the unaudited financial statements) remained in line with the previous year and at the Council's benchmark level. Useable reserves have increased by £26.1 million from the prior year (per the unaudited financial statements) although this is largely due to an increase in capital grants unapplied which will be released as the grant funding is spent.

The most recent MTFS indicates that the financial position is balanced for the 2013/14 period and officers have identified savings of £9.6 million to achieve this, which is above the original MTFS requirement for the year of £4.4 million. There is a cumulative resource gap of £30 million for the next four years (2013 to 2017), including £4.3 million in 2014/15 and £3.3 million in 2015/16.

Officers are reviewing various options to address identified resource gaps, including further reducing expenditure and increasing efficiency savings, opportunities for joint working with other local authorities (such as a shared service for Adult Learning services), securing further procurement efficiencies and increasing income streams. The Council anticipates further savings will be secured through its transactional services hub, as further services are included in the hub and its work becomes embedded in the Council's operations.

## Financial resilience

## Audit issues and impact on opinion

The Council has undertaken a benchmarking exercise to compare costs and Value for Money with other unitary councils. This indicates that the Council has areas of higher and lower comparative costs across some of its service areas. However, the reasons are well understood within the Council and the higher relative costs arise because of the Council's decision to invest in the services in line with its policies and priorities, and will also be utilised to help inform where further savings can be achieved going forward through the Medium Term Financial Strategy.

The Council has invested in its financial management resource and temporary posts are now permanently filled. The new team is considering ways to improve financial governance, planning and internal control processes to achieve efficiencies, for example quarterly Governance reports to the Audit and Risk Committee, more integrated performance and finance reports, regular Treasury Management Group meetings and formulating a risk based approach to the monthly meetings with budget holders.

The outcome of our audit of the 2012/13 financial statements is summarised earlier in this report and contains recommendations which the Council has accepted to further strengthen arrangements for preparing the annual financial statements and to embed these effectively.

## Challenging economy, efficiency and effectiveness

## Audit issues and impact on opinion

Our risk assessment and review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources within tighter budgets and improving efficiency and productivity.

### Key findings in response to audit risks

#### Outsourced services for transactional systems

We have no issues to report

The Council has an agreed governance structure for managing its contract with the transactional hub provider, through a Strategic Board, Operational Board and other informal meetings. Internally, the performance of the contract (and the Partnership) is reported to the Corporate Management Team and the Overview and Scrutiny Committee.

The Partnership has an Annual Service Plan which sets out activities over the next 12 months and how such activity will be planned, managed and monitored to ensure individual service objectives are achieved. There is also a joint improvement plan that has been developed collaboratively with the contractor.

Internal Audit reviewed the governance structure and contractual performance management processes and reported 'substantial' and 'reasonable' assurance respectively for these arrangements.

The Council is in the process of revising the key performance indicators (KPIs) stated in the contract to ensure these further underpin its priorities for debt management and cash collection. As part of this exercise the Council is developing a documented methodology for the revised indicator set and procedures for validating the indicator scores received from the contractor.



Management reported the following achievements (amongst others) for the first year of the Partnership's operation to the Overview and Scrutiny Committee in April 2013:

- a joint established approach to integrating new legislation such as the Council Tax Support Scheme and the Benefits Cap
- KPI performance for the year reports an overall positive direction of travel in most areas with improved Council Tax collection rate in-year
- completion of work to cleanse the NNDR database, including the valuation lists and balances on accounts, which has resulted in an increase in collection rates
- administration of benefit performance was adversely affected through an increased workload, though performance in processing new claims and change of circumstances matched prior year's performance on a month by month basis.

The improvements in Council Tax collection rates in 2012/13 were marginal. However, management expects these to improve further as the contract becomes embedded.

In December 2012 the Cabinet agreed that officers should engage in negotiations with the transactional services provider to assume responsibility for the Customer Service Centre and ICT services. An update was provided to the Overview and Scrutiny Committee in April 2013. At that time, the potential savings arising from the contract enhancement were not finalised but the Committee recognised economies of scale could be achieved through the further outsourcing and enhanced contract. Specifically, through the provider's increased buying power in terms of investment in IT and the wider economic benefits from the growth of its business in Slough.

Associated with this, the Council is working with the provider and other partners to implement a new general ledger system. Management expects to secure significant savings in software licensing costs from this project.

Challenging economy, efficiency and effectiveness

Audit issues and impact on opinion

**Local asset backed vehicle (LABV)**

The Slough Regeneration Partnership LLP was created and a partnership agreement was signed in March 2013. A partnership business plan has been agreed which covers the strategic, operational business and governance framework of the Partnership. The work of the Partnership is overseen by a Business Board and a Community Projects Board and there is Council representation at Director level on both Boards.

Slough has contacted other Councils to ensure available learning on managing significant capital regeneration projects is understood and has seconded an officer from another Authority to provide additional expertise in this area.

Management is reviewing the Council’s governance structures in relation to the Partnership to ensure that the role of the Capital Strategy Board, in approving assets for inclusion in the LABV, is formalised and that effective procurement processes are embedded.

The Partnership is in its early stages and no Council assets have been transferred to date. It is therefore too early to assess whether value for money is being achieved from the arrangement. However, the Council is aware of the key risks associated with the Partnership and is taking appropriate steps to mitigate these.

The Council should work with partners to develop an appropriate suite of key performance indicators for the LABV and performance should be regularly reviewed at the partnership boards.

**Joint Health and Wellbeing Board**

We have no issues to report.

The Slough Wellbeing Board worked in shadow form from November 2011, taking on responsibility for the work of the Local Strategic Partnership in this area. It became fully operational on 1 April 2013, meeting the Government's deadline.

The Slough Joint Wellbeing Strategy (SJWS) 2013 - 2016 was approved by the Cabinet in January 2013, after approval by the Health Scrutiny Panel. The strategy built upon the priorities set out in the Council's previous Sustainable Community Strategy and the evidence supporting the Joint Strategic Needs Assessment, ensuring the outcome of previous community consultation and engagement process were retained.

In developing the SJWS and the Slough Wellbeing Board structure, the Council commissioned external consultants to assist in scoping priority needs, determining appropriate models of health and wellbeing for Slough and modelling organisational structures for the integration of public health. This work involved extensive consultation with strategic partners and other stakeholders).

The SJWS places particular emphasis on the wider determinants of health which are key to improving the wellbeing of residents, and includes priorities in respect of health, economy and skills, housing, regeneration and environment, and safer communities.

The implementation of the SJWS is being taken forward through six Priority Delivery Groups (PDGs) and various sub-groups. We understand PDGs are currently finalising their balanced performance scorecards and reporting arrangements, while developing appropriate milestones.

A performance monitoring tool has been drafted for the Slough Wellbeing Board, based on a suite of key performance indicators selected by the Board for each priority area. The aim is to develop regular performance reports to the Board, underpinned by more detailed progress reports from the PDGs. The work of the Wellbeing Board will be subject to scrutiny through Slough's Overview and Scrutiny Committee and through the Health Scrutiny Panel. A protocol has been developed to clarify the scrutiny responsibilities.

Other protocols have also been developed to clarify relationships with other Boards, such as the Slough Children and Young People's Partnership Board, to ensure there is no duplication of work. A protocol has not yet been developed for the work of 'Healthwatch' (the independent body representing patients and service users).

**Localisation of Council Tax Benefits**

In December 2012 the Cabinet approved a new Council Tax support scheme to replace the previous Council Tax benefit scheme which the Government abolished on 31 March 2013. The impact of the legislation reduced the support provided by the Government by 10 per cent of Slough's benefit administration costs. This amounts to reduced subsidy of £1.1 million for the Council, based on 2011/12 subsidy income levels.

The Council consulted with residents during the third quarter of 2012/13 and reported the results of the consultation to the Cabinet in December 2013. The general consensus was that all residents of working age should make a contribution to the Council's funding and that the most vulnerable members of the community should be supported by the Council's new support scheme. Following the consultation, the impact of the potential adjustments to Council Tax benefit was modelled to ensure that increases in Council Tax income under the new scheme offset the reduction in Government funding. In implementing the new scheme, the Council took steps to ensure clear communication of the changes to the residents affected.

The extension of the Council Tax base to residents who did not previously pay Council Tax represents an increased risk of arrears accumulating. Whilst it is too early to determine the full impact on Council Tax collection rates, a working group is in place to determine the financial outcome of the new scheme and the impact on collection rates continues to be monitored closely.

**Approach to implementing recommendations made by auditors**

Internal Audit has provided an overall unqualified opinion on the Council's arrangements for governance, risk management and control for 2012/13. However, it has provided 12 'red' (no assurance) opinions and 20 'amber red' opinions, out of 55 audits carried out. The red opinions relate to:

- financial management in schools (five schools)
- declaration of interests
- business rates
- contract management
- contract management - block nursing contracts
- safeguarding children - risk assessment process
- procurement - on-going reviews
- asset register.

We note the risk based programme of work Internal Audit agreed with management resulted in audit work being focused on areas where management felt there was scope for improvement and where control weaknesses were known.

We have no issues to report

Management should ensure that all outstanding high priority recommendations made by Internal Audit are addressed as a matter of urgency, particularly in respect of weaknesses in the governance, procurement and financial management arrangements within schools still under the control of the Council.

In March 2013 the Council implemented a formal process to log and track recommendations made by Internal Audit. All high and medium priority recommendations are now recorded when Internal Audit reports are finalised. The Risk and Insurance Officer regularly monitors progress by obtaining updates from responsible officers and an implementation score is allocated to each recommendation to reflect the stage of completion.

A summary of the latest results was reported to the Audit and Risk Committee in June 2013 and this showed that 45 per cent of recommendations made by Internal Audit that were due to be implemented by the end of May 2013 had been actioned. This increases to 75 per cent if schools are excluded. No management updates were received for 16 per cent of the recommendations. Progress is expected to improve as the monitoring process becomes embedded. The responses provided by management will be audited when Internal Audit follows up on their recommendations in the following year.

An update for each of the recommendations raised by the predecessor auditors in their Annual Governance Report was also reported to the Audit and Risk Committee in June 2013 and a log of all external audit recommendations will also be maintained going forward.

There are plans for the recommendation trackers to be regularly monitored by the Audit and Risk Group and reported to the Corporate Management Team and the Audit and Risk Committee on a quarterly basis.

#### Other findings

##### Performance towards corporate priorities

The Council reported positive performance in many areas in 2012/13 and 22 out of 31 (72 per cent) of the key performance indicators in the Council's balanced scorecard met or exceeded the published target for the year. The direction of travel was positive for 17 of the 31 indicators (55 per cent). In addition, the Council reported that four out of seven of its 'Gold' (high priority) projects' have been concluded in the year.

##### Children's Services - reports by the external regulator

In April 2011 Ofsted carried out an unannounced inspection of the Council's safeguarding services and concluded that the effectiveness of the service was inadequate (below minimum requirements). In the aftermath of the inspection, the Council undertook a comprehensive review of the service with its key strategic partners and involving peer support as directed by Ofsted. A Safeguarding Improvement Plan was published and achievement monitored by a newly established Improvement Plan Project Board. The Council took immediate action to implement Ofsted's recommendations to improve the leadership and management of the service and address the examples of poor professional practice found at the time of the inspection. The Council continues to focus on the performance of individual practitioners and the quality of work and case files produced. In 2012/13 and to date, the Improvement Plan Project Board continues to oversee outcomes following the implementation of the Improvement Plan. Improvement in the service is one of the Council's 'Gold' projects, with the Cabinet receiving regular reports on progress. Ofsted has now updated its methodologies and the Council has not yet been inspected under the new arrangements.


We have no issues to report.

## BDO CONCLUSION

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We propose issuing an unqualified value for money conclusion.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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