SLOUGH BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT AND RISK COMMITTEE

Audit for the year ended 31 March 2014

September 2014

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OVERVIEW

Significant Matters for the attention of those charged with governance

We present this report to the Audit and Risk Committee on 23 September 2014 as our audit of the 2013/14 financial statements and value for money is approaching completion. At the time of drafting this report there is a significant amount of audit work still in progress, although we expect to complete the audit before the statutory deadline of 30 September 2014.

FINANCIAL STATEMENTS AUDIT

Background to the 2013/14 audit of Slough Borough Council

Members will be aware the Council has previously experienced difficulty in achieving national and local timetables for the production of its annual financial statements. The opinion on the 2012/13 financial statements was given on 31 October 2013, one month after the statutory deadline, due to the significant number of issues arising from the audit and the high number of amendments required to the financial statements.

Our 2013/14 audit plan, presented to the Audit and Risk Committee in March 2014, therefore identified the preparation of the financial statements as a significant audit risk.

Members will also be aware that the Council established an accounts closedown project group to oversee the preparation for and delivery of the 2013/14 accounts closedown process. The group reported to the corporate management team and the Audit and Risk Committee received updates on progress from the Chief Finance Officer in the year. The project plan identified the processes and arrangements that needed to be put in place by the finance team, service departments and third party providers, to effectively produce the financial statements for 2013/14, to be certified by the Chief Finance Officer by the beginning of June 2014. The project plan included actions to ensure that supporting working papers were adequate and produced on a timely basis.

We prepared a detailed schedule of working papers and a database of template working papers for the audit trails we expected to receive with the draft financial statements. We provided our schedule of working paper requirements to officers on 31 March 2014. Officers have pointed out the Council's accounts closedown improvement project commenced in November 2013. We believe we provided our requirements in sufficient time for the Council's accounts closedown. A number of meetings were also held with finance officers in the lead up the accounts closedown to discuss working paper requirements and progress on the Council's accounts preparation project.

Key audit findings

The Council provided the draft financial statements to us on 30 June 2014, in accordance with the statutory deadline. The requirements of the Accounts and Audit Regulations for the Chief Finance Officer to certify the financial statements by 30 June 2014 were therefore met.

From our initial review of the draft financial statements it was clear that they contained fewer inconsistencies than the draft statements provided to us in the prior year. However, a number of presentational inconsistencies and errors were identified by our review which indicated that there had been insufficient time for a critical review of the draft before it was presented for audit.

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A detailed file of electronic working papers was provided to us on 7 July 2014, in accordance with the agreed timetable. However, our review of these working papers found a number of gaps and quality issues. Our comparison to the detailed schedule of working papers provided to the Council found that only a third of the working papers were sufficiently detailed to allow an effective starting point for the audit of those balances. It is accepted this is our subjective judgement. Delays were therefore experienced in progressing our work from the outset of the audit. Further delays were experienced as audit queries arose throughout the onsite audit visit. We kept the Corporate Financial Controller and the Chief Finance Officer of the progress of the audit throughout our on-site visit and provided an estimate of the additional costs incurred based on the additional time spent in progressing audit queries.

Our audit has again identified a number of material errors in the presentation of the financial statements. We also found a high number of non-trivial (not material) errors and other inconsistencies. Officers are adjusting the majority of the errors identified by our audit. We have also followed up on the recommendations that we raised last year and the results are recorded in Appendix IV. The following significant changes occurred between the draft financial statements produced on 28 June and the audited financial statements.

1) Adjustment to derecognise two buildings that were demolished prior to 1 April 2012 (these were removed from the accounts in 2013/14 in the draft financial statements):

As at 1 April 2012 (restated by prior period adjustment):

- the amount of net assets (Balance Sheet) decreased by £6.193 million (from £202.804 million to £196.611million)
- unusable reserves (Balance Sheet) decreased by £6.193 million (from £202.804 million to £196.611 million)

As at 31 March 2013 (restated by prior period adjustment):

- net assets (Balance Sheet) decreased by £6.193 million (from £285.365 million to £279.172 million)
- unusable reserves (Balance Sheet) decreased by £6.193 million (from £173.002 million to £166.809 million)

2) Correction of a number of misstatements in 2013/14, principally to recognise upward indexation of £17.861 million on council dwellings (of which £5.056 million was credited to the Comprehensive Income and Expenditure Statement), to transfer £6.193 million loss on disposal of two buildings (in the Comprehensive Income and Expenditure Statement) to prior years, to recognise upward revaluation of £3.227 million on four buildings revalued during the audit (of which £658,000 was credited to the Comprehensive Income and Expenditure Statement) and to recognise net expenditure of £1.445 million relating to schools (in the Comprehensive Income and Expenditure Statement):

As at 31 March 2014:

- net assets (Balance Sheet) increased by £18.894 million (from £283.108 million to £303.635 million)
- earmarked reserves (Balance Sheet) reduced by £1.633 million (from £26.091 million to £24.458 million)
- unusable reserves (Balance Sheet) increased by £20.527 million (from £155.680 million to £176.207 million)
- deficit on the provision of services (Comprehensive Income and Expenditure Statement) reduced by £10.331 million (from £13.334 million to £3.003 million).

OVERVIEW

Significant Matters for the attention of those charged with governance

Next steps

Officers recognise the Council’s arrangements for preparing the financial statements require further strengthening. Management believes it now has a more stable platform to achieve this. We will be working with the Chief Finance Officer and his team to ensure the recommendations arising from our audit are implemented, and that the significant matters identified by auditors are addressed in producing the 2014/15 financial statements. While our audit work remains in progress at the time of drafting this report, we will update the Audit and Risk Committee at the meeting on 23 September 2014. We will circulate a revised report to the Committee before we issue our audit opinion, to update the Committee on the results of the work completed since drafting this report.

Subject to satisfactory completion of the outstanding audit work, we expect to issue an unqualified opinion on the financial statements.

QUALIFIED VALUE FOR MONEY CONCLUSION

Challenging economy, efficiency and effectiveness

The Audit Commission’s Code of Practice requires auditors to review and, where appropriate, examine evidence that is relevant to the Council’s corporate performance and financial management arrangements. In meeting this responsibility, we must have regard to certain criteria specified by the Commission. The criteria for economy, efficiency and effectiveness (‘VFM’) published by the Audit Commission for the period ended 31 March 2014 covers the Council’s arrangements for prioritising resources and improving productivity and efficiency. Guidance on applying the criteria is provided by the Commission and includes examples of the characteristics of proper arrangements Councils might have in place to challenge VFM, including the leadership and the capacity necessary to deliver the scale of expected spending reductions; consultation with service users on service development; data quality and use of information; partnership working and a track record of challenging service performance; and delivering cost reductions and maintaining service quality. There are three VFM conclusions available to the auditor:

- an unqualified conclusion
- a qualified conclusion
- an adverse conclusion.

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Significant Matters for the attention of those charged with governance

Reports published by Ofsted at Slough contain judgements relevant to the characteristics indicated by the Audit Commission which we have considered in reaching a qualified VFM conclusion. In December 2013 Ofsted completed an inspection of services for children in need of help and protection, children looked after and Care Leavers. While recognising improvement had been made in specific areas, Ofsted also concluded that insufficient progress had been made, and judged the services it reviewed to be inadequate overall. Ofsted also concluded arrangements for securing the effectiveness of the Local Safeguarding Children Board (LSCB) were inadequate. By Ofsted's definition of 'inadequate', the judgement indicates that the LSCB could not demonstrate the required skills to discharge its statutory duties. Ofsted did conclude the LSCB had taken effective action to address some of the weaknesses in its operations identified by a previous inspection. Ofsted also concluded the LSCB is well placed to drive the improvements necessary.

While recognising some recent, positive outcomes have been reported by the Council in Children's Social Care Services, because of the significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, and the judgement that insufficient progress had been made in the inspection in 2013, and the decision of the Department for Education to pursue a transfer of Children's Social Care Services out of the Council's control, we expect to issue a qualified value for money conclusion. We have also had regard to the inadequate judgement published by Ofsted about the effectiveness of the Local Safeguarding Children's Board in reaching our conclusion. The VFM conclusion will state that in all significant respects, the Council secures value for money in use of resources except for this matter.

Significant audit findings

This summary covers the significant findings from our audit of Slough Borough Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Financial statements Unqualified opinion	We have completed a substantial part of our work, although there remains a significant amount of audit work still in progress at the time of drafting this report. Further detail on the status of our work is set out on the following page. Our final audit materiality is £4.3 million (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £86,000. Ten material misstatements were identified as a result of our audit which management has agreed to amend. Four of these misstatements relate to disclosures in the financial statements notes rather than the primary statements. These amendments, together with the other non-material amendments that have been processed, reduced the deficit on provision of services for the year (in the Comprehensive Income and Expenditure Statement) by £10.331 million, from £13.334 million to £3.003 million. These corrections relate either to reclassifications of transactions or balances, or capital items which are subsequently reversed through reserves, therefore there is no impact on the closing general fund balance. There are seven unadjusted audit differences identified by our audit work which would increase the revised deficit on the provision of services by £1.995 million to £4.998 million (from £3.003 million). Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.
Control environment	We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. The Council's arrangements for preparing effective audit working papers to support the financial statements are considered to be a significant deficiency in controls. A number of other areas for improvement were identified which we have discussed with management. Some of these are included in the action plan at Appendix IV.
Governance reporting	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).
Whole of Government Accounts (WGA)	Our review of the Council's WGA Data Collection Tool (DCT) will commence when we receive a revised return from officers. The Government's deadline for submission of the audited return is 3 October 2014. The achievement of that deadline will depend on the quality of the return, its timely receipt and with appropriate working papers. There is a risk the Government's deadline will not be met because at the time of drafting this report the amendments to the draft DCT have not yet been made.

Significant audit findings (continued)

AREA OF AUDIT	SUMMARY
Use of resources Qualified conclusion	In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In December 2013 concluded, following an inspection, that services for children in need of help and protection, children looked after and Care Leavers were inadequate overall. Ofsted also concluded, following a review, that arrangements for securing the effectiveness of the Local Safeguarding Children Board were inadequate. In June 2014 an independent research company commissioned by the Minister of Children's Services, published a report into Slough's Children's Social Care Services. The Parliamentary Under Secretary of State for Children and Families for the government department considered the report and wrote to the Council on 15 July 2014 confirming he was minded that Children's Services should be removed from the Council's control. A final decision is however awaited. On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported above, we are 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 2014.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW
Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit and Risk Committee.

- Clearance of outstanding issues raised with management regarding:
  - Schools balances
  - A number of queries across a range of balances, income and expenditure and other disclosures.
- Audit of journals for evidence of management override of controls
- Audit of Cash Flow Statement and supporting notes following other amendments to the financial statements
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Clearance of outstanding audit work and review points	by 30 September 2014
Audit and Risk Committee meeting	23 September 2014
Signing of financial statements	30 September 2014
Submission of WGA assurance report	TBA

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Risk Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES

A summary of planned fees for audit and non-audit services for the period from 1 April 2013 to date is set out below:

	£
Audit fees	[1] 168,960
Certification fees	[2] 14,828
Other fees	-
TOTAL FEES	**183,788**

[1] The scale fee for the audit as published by the Audit Commission and reported in our audit plan is £168,960. However, our audit has not progressed in accordance with our plans due to delays in receiving appropriate audit working papers across almost all areas of the financial statements. Our audit found a high number of material and other errors; management has agreed to change all material items and many of the others. We are in the process of discussing our cost overruns with management.

[2] The scale fee for certification work as currently published by the Audit Commission is £14,828. However, this excludes an additional scale fee of £12,550 that the Audit Commission has approved for the housing benefits subsidy return. Work on this return is in progress and we will review our costs as the work progresses to determine whether this additional fee will be required.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission's Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.

Key audit staff involved	**Years**
Robert Grant - Audit engagement partner	2
Janine Combrinck - Audit Manager	2

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1. The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.
2. The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
3. The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
4. The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
5. The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
6. The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
7. The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in March 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks. We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We are in the process of finalising our audit of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We have also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements from audit work carried out to date. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	The largest component of Council income is annual grant funding which is agreed to notification from Government. Council tax and non-domestic rates income are based on precepts and demands on the collection fund. Subsidy income for benefits is calculated based on DWP subsidy calculations and reconciled to underlying benefits paid. Grants and contributions received are reviewed for conditions by finance staff and only recognised as revenue where there are no remaining conditions. Social care income is invoiced to individuals receiving residential or domiciliary care following payments made for their care and is based on assessments of their financial circumstances. Remaining significant revenue streams are invoiced by the transactional services hub upon receipt of 'notification of debt' forms from service departments, and the revenue is recognised at that point.	We substantively tested a sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year. We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period. Audit procedures have been carried out to review an extensive sample of grants and other contributions to ensure that they have been recognised correctly in the financial statements or deferred where applicable.	No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year. However, a number of classification errors have been identified and these are set out in the section on 'Other relevant audit and accounting issues' below.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
FINANCIAL STATEMENTS PREPARATION	As a result of the weaknesses in the Council's arrangements for preparing the financial statements in the prior year, and the significant number of misstatements identified in the prior year audit, the Council established an accounts closedown project for 2013/14 to manage and oversee the preparation for and delivery of the 2013/14 accounts closedown process. The project plan identified the processes and arrangements that needed to be put in place by the finance team, service areas and third party providers to effectively produce the financial statements for 2013/14, for sign off by the Council's Chief Finance Officer by the beginning of June 2014. *(Continued)*	A number of meetings were held with finance officers in the lead up the accounts closedown to discuss progress with the accounts closedown project and emerging and contentious accounting issues. We carried out a detailed review of the draft financial statements in early July and provided early feedback to the Council. We carried out a high level analytical review of the financial statements against comparatives for 2012/13 and sought explanations from the Council for material variances. In particular, we have carried out a full review of the following areas where there were significant amendments in the prior year: • The Comprehensive Income and Expenditure Statement (CIES) • Cash Flow Statement and supporting notes • Movement in Reserves Statement and the note for adjustments between accounting basis and funding basis under regulations note • Property, plant and equipment note • Financial instruments note • Amounts reported for resource allocation decisions note • Senior officer remuneration bandings note • Leases note	From our initial review of the draft financial statements it was clear that they contained fewer inconsistencies than the draft statements provided to us in the prior year. However, a number of presentational errors and inconsistencies were identified which indicated that there had been insufficient time for a critical review of the draft before it was presented for audit. Our audit of the significant risk areas also highlighted a number of misstatements as set out below.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
FINANCIAL STATEMENTS PREPARATION	*(Continued)*	Audit of the CIES	**Audit of schools balances** The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) require improvement. The working papers and journals prepared to support transactions consolidated into the CIES and Balance Sheet were inadequate. We are continuing to review the consolidation of schools transactions into the Council's financial statements. The financial statements will require amendment for this issue (CIES and Balance Sheet) which are likely to be significant (non-trivial). **Consolidation of the Housing Revenue Account (HRA)** ***(Material corrected misstatement)*** Local authority housing expenditure in the CIES was £12.851 million higher than expenditure disclosed in the HRA in the draft financial statements, due to the incorrect consolidation of the HRA into the CIES and other unallocated trial balance codes in the CIES. The error has been corrected in the revised financial statements by reclassifying a number of entries in the CIES and HRA. The reclassifications include a transfer of revenue expenditure funded from capital under statute (REFCUS) incurred on Academy Schools, from local authority housing expenditure to education and children's service's expenditure. **Internal recharges** ***(Material corrected misstatement)*** Our audit testing of income found a number of instances where support costs and overheads that were recharged from one service to another were incorrectly accounted for as income to the service, rather than netting the recharge off against expenditure. As a result, gross income and gross expenditure in the CIES were overstated by £10.882 million, across all services. This included £3.796 million in respect of transactional services hub phase II costs within central services to the public and £1.099 million in respect of insurance trading account transactions included within non distributed costs. These misclassifications have been amended in the revised financial statements, by reducing income and expenditure by £10.882 million. However extrapolation of the misclassifications in expenditure indicates that there could be further potential misclassifications of this nature (our extrapolation indicates £1 million). This has been recorded in the schedule of unadjusted audit differences at Appendix II. **Recharges between Berkshire Councils** Our sample testing of income also found instances where recharges to other Berkshire Councils totalling £383,000 were recorded as income rather than netting the recharge off against expenditure. As the Council is acting in an agency rather than principal role, net accounting should be applied. The financial statements have been amended for this issue.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
FINANCIAL STATEMENTS PREPARATION	*(Continued)*	Audit of the CIES (continued)	**Public health** ***(Material corrected misstatement)*** CIPFA's 2013/14 Service Reporting Code of Practice (SERCOP) requires that public health income and expenditure is disclosed as a separate service line in the CIES. The Council had included public health income of £5.305 million and associated expenditure of £5.287 million in Education and children's services. This income and expenditure has been transferred to a separate public health line in the revised financial statements. **Benefit administration subsidy** Our audit found that £902,000 of benefits administration subsidy received from the Department for Works and Pensions had been credited to expenditure across various services in the CIES. As this is true income to the Council, it should be disclosed as gross income. An amendment has been made to the financial statements to recognise the income in other housing services and increase expenditure where it had been incorrectly allocated. **Investment income and expenditure** Rental income and associated expenditure from investment properties was included in the net cost of services in the CIES, rather than in financing and investment income and expenditure as required by the Code. The issue has been corrected in the revised financial statements by reclassifying rental income of £1.495 million and estimated expenditure of £805,000. **Other misclassifications** Our sample testing found a number of other misclassifications between services lines in the CIES, where classifications are not in accordance with the Service Reporting Code of Practice (SERCOP) in the draft financial statements: • cremations income of £1.379 million and expenditure of £801,000 incorrectly classified to the Planning service in the CIES, rather than Environment and regulatory • parks expenditure of £103,000 incorrectly classified to Corporate and democratic core, rather than Environment and regulatory • social care income of £399,000 incorrectly classified to Education and children's services, rather than Adult social care. These have been amended in the revised financial statements. However extrapolation of the misclassifications in expenditure indicates that there could be further potential misclassifications of this nature (our extrapolation indicates £1.5 million). This has been recorded in the schedule of unadjusted audit differences at Appendix II.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION		Audit of Cash Flow Statement and supporting notes	**Cash Flow Statement and supporting notes** ***(Material corrected misstatement)*** The notes supporting the draft Cash Flow Statement contained a number of omissions and inconsistencies with other areas of the financial statements. This includes the omission of disclosures for movements in working capital in the year, capital grants and contributions received in the year, purchase of short term investments and repayment of borrowing. We will complete our audit of the Cash Flow Statement when all required journal amendments arising from the audit have been processed.
		Audit of Movement in Reserves Statement and the note for adjustments between accounting basis and funding basis under regulations	**Movement in reserves statement and supporting note** There were no significant inconsistencies in the Movement in Reserves Statement and supporting note.
		Audit of property, plant and equipment note	**Property, plant and equipment note** Our audit has identified a number of errors in this note. These are set out in the valuation of property, plant and equipment significant risk below.
		Audit of financial instruments note	**Financial instruments note** ***(Material corrected disclosure misstatement)*** Our audit identified errors and omissions in the presentation of this note and amendments are being made to correct a number of disclosures in the note, including removal of amounts from debtors and creditors that do not meet the definition of financial assets or liabilities (such as prepayments, income in advance and balances in respect pf council tax, housing benefits, business rates, PAYE, social security and VAT).
	(Continued)	Audit of note for amounts reported for resource allocation decisions	**Amounts reported for resource allocation decisions note** ***(Material corrected disclosure misstatement)*** Our audit found that the draft financial statements did not agree to the directorate analysis, total income and expenditure did not agree to the CIES, and there were several other inconsistencies with other parts of the financial statements. Amendments are being made to the financial statements to correct these issues.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
FINANCIAL STATEMENTS PREPARATION		Audit of senior officer remuneration bandings note Audit of leases note	**Senior officer remuneration bandings note** ***(Material corrected disclosure misstatement)*** We found that the draft note had incorrectly included non-taxable expense payments and excluded officers earning over £50,000 who are employed in schools. As a result, amendments have been made to the note, which has resulted in a net increase of fourteen employees disclosed in the note. **Leases note** ***(Material corrected disclosure misstatement)*** Disclosures for minimum lease rentals for operating leases where the Council acts as lessee were omitted from the draft note. This has been corrected in the revised financial statements.
VALUATION OF PROPERTY, PLANT AND EQUIPMENT	Following the amendments to the 2013/14 Code which state that property, plant and equipment should be revalued with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period, the Council obtained a full valuation of its council dwellings at 1 April 2013. The Council has also obtained a supplementary report to confirm there were no material changes at year end. *(Continued)*	We reviewed the evidence provided by management to support the fair value of its property, plant and equipment at year end and reviewed the accuracy of revaluation adjustments.	**Valuation of council dwellings** ***(Material corrected misstatement)*** The Council correctly accounted for revaluations as at 1 April 2013. The year-end desktop valuation by the valuer indicated that housing prices increased by 4% in the year. However, the Council did not account for this increase as the valuer concluded that it was not material. At our request the Council has applied the 4% index to the opening value of its council dwellings and accounted for a £17.861 million increase in the carrying value of its council dwellings, with an associated increase in the revaluation reserve of £12.805 million, £5.056 million credit to local authority housing expenditure (and consequent increase in capital adjustment account by £5.056 million through the Movement in Reserves Statement). We are in the process of auditing this adjustment. **Valuation of other land and buildings** The Council has continued with its rolling programme of revaluations on other land and buildings. Whilst we are satisfied that there is no material misstatements as a result of average movements in property prices since assets were last revalued, we have carried forward our prior year recommendation that management retains sufficient and appropriate justification for the valuation of land and buildings not formally revalued in the year. **Valuation of vehicles, plant and equipment (VPE)** VPE are reasonably short-life assets and the depreciated carrying value is assumed to be a reasonable proxy for their fair value. We are satisfied that the useful economic lives allocated to classes of equipment assets are reasonable.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
VALUATION OF PROPERTY, PLANT AND EQUIPMENT	*(Continued)*	To understand the reason for some of valuation movements, we reviewed the basis of valuations provided by the valuer in the prior and current year.	**Depreciated replacement cost (DRC) valuations** The Code specifies the use of an instant build approach for valuing specialised assets on a DRC basis and the CIPFA Property Handbook (2012) explains that this method means that finance costs relating to site acquisition and building construction should be excluded from the valuation. During the audit it was noted that prior year DRC valuations by the valuer were not carried out on an 'instant build' approach and therefore incorrectly included finance charges, although current year valuations were completed correctly. Revised valuations on an instant build approach were requested from the valuer for all assets revalued in 2012/13 and 2011/12 and this indicated that that other land and building were overstated by £1.651 million at 31 March 2013. In addition, for DRC valuations that were carried out at 1 April 2013, the Council has estimated that other land and buildings were overstated by a further £1.003 million at 31 March 2013. The total understatement of property, plant and equipment and associated reserves (revaluation reserve and capital adjustment account) of £2.654 million at 31 March 2013 is not material and therefore no prior period adjustment is required to restate the 2012/13 comparatives in the current year financial statements. In 2013/14 the increase in revaluation gains for 2013/14 DRC valuations is understated by £1.003 million as a result of the overstated opening balance. The closing balance on property plant and equipment at 31 March 2014 was overstated by £1.651 million. However, to partly address this issue, during the audit the Council obtained DRC instant build valuations at 31 March 2014 for four of the most significant DRC assets that were revalued in 2012/13 or 2011/12 at £1.149 million. The financial statements have been amended for these revaluations, which resulted in increases in property, plant and equipment of £3.227 million, revaluation reserve of £2.569 million and impairment reversals of £658,000 (and consequently an increase in the capital adjustment account of £658,000). At 31 March 2014 the remaining misstatement as a result of incorrect DRC valuations is a £502,000 overstatement of property plant and equipment, £398,000 overstatement of reserves and £104,000 understatement of loss on disposal of non-current assets (and consequently £104,000 overstatement of the capital adjustment account). This has been recorded as an uncorrected misstatement in Appendix II.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY, PLANT AND EQUIPMENT		We reviewed whether depreciation has been adequately calculated on a componentisation basis.	**Componentisation of land and buildings** We have noted that for council dwellings revalued during the year, no componentisation was applied because the difference in annual depreciation would be immaterial to the accounts. Finance officers have now calculated that depreciation would be £852,000 higher using a different weighted remaining useful life for flats and houses. Whilst this difference is not material in the current year, it will be material over time. We have recorded an unadjusted misstatement in Appendix II.
		We reviewed whether there is sufficient evidence of a formal review of the useful economic lives.	**Useful economic lives** Management has stated that it has undertaken an informal review of useful lives, depreciation methods and residual values and that the existing assumptions remain appropriate. However, the evidence retained by management to support their review is limited and we have carried forward our prior year recommendation (Appendix IV) that management more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets.
	(Continued)	We reviewed whether fully depreciated assets in the fixed assets register are either removed because they are no longer held by the Council or revalued where they are still in use.	**Fully depreciated assets** In the draft financial statements the Council has correctly derecognised fully depreciated vehicles, plant and equipment that are no longer in use.

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY, PLANT AND EQUIPMENT		We audited disposals and checked that assets no longer held by the Council have been appropriately derecognised from the accounts.	**Derecognition of demolished assets** ***(Material corrected misstatement)*** Our testing of disposals of non-current assets found that they included £6.193 million for two buildings that were demolished prior to 1 April 2012 but only removed from property, plant and equipment in the current year. As the misstatement is material, the financial statements have been restated by way of a prior period adjustment to derecognise the assets and associated reserve balances from the accounts at 1 April 2012.
		We reviewed the adjustment processed for capital expenditure on council dwellings.	**Derecognition of capitalised expenditure on council dwellings** The Council incurred expenditure of £8.166 million on the refurbishment of its housing stock in the year. This amount had been derecognised from property, plant and equipment as a proxy for the deemed carrying amount of the replaced components. This treatment is acceptable under the Code, however the Code Guidance notes for practitioners 2013/14 states that this amount should be adjusted for any depreciation and impairment. Whilst we are satisfied that the accounts are not materially misstated as a result of the Council's approach in this area, we have raised a recommendation in Appendix IV that accounts closedown procedures should include a process to calculate a reasonable carrying value for replaced components of council dwellings rather than derecognising the components at the same value as the capital expenditure incurred.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
RISK	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY, PLANT AND EQUIPMENT	We have reviewed management's use of indices for the movement in the market value of council dwellings.	We are satisfied that the valuer is sufficiently independent of the Council, objective and experienced in undertaking this work. The year-end review includes a report on the movement in the average market prices of housing in the area. This indicates an increase of 4% in the market value of houses. We are satisfied this is in line with regional movements. As a result of the audit the Council has now applied the index notified by its valuers for the movement in the market price of houses since the last formal valuation of council dwellings on 1 April 2013.
PENSION LIABILITY	The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels. We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.	The net pension liability of the Council comprises its share of the market value of assets held in the Royal County of Berkshire Pension Fund, administered by the Royal Borough of Windsor and Maidenhead Borough Council, and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council. We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggests that these are generally not significantly different from those being applied by the actuaries of other local authorities. There are adequate controls over the submission of data from the pension fund to the actuary.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
COLLECTION FUND BALANCES	We reviewed Collection Fund balances to check that they correctly reflect movements in balances in the year and are appropriately presented in the financial statements.	Our audit of Collection Fund balances in the Balance Sheet found a number of mispostings between debtors and creditors. These have been corrected in the revised financial statements, by reducing debtors and creditors by £3.239 million.
SCHOOLS BALANCES	We reviewed schools balances to check that they correctly reflect movements in balances in the year and are appropriately presented in the financial statements.	In the prior year we reported that there were differences between estimated schools balances in the ledger and returns from schools. In correcting these brought forward balances this year, and in removing balances for schools that have become academies in the year, a number of misclassifications between debtors and creditors arose. These have been corrected in the revised financial statements by decreasing debtors by £4.038 million, creditors by £2.811 million, cash by £218,000 and schools reserves by £1.445 million. There are nine schools under the Council's control that do not process their transactions directly through the Council's general ledger ('non Oracle schools'). They provide the Council with quarterly returns and the Council processes these transactions to the general ledger by way of journal entries. Our audit found that the Council had incorrectly processed all Balance Sheet movements to income and expenditure. This has been corrected in the revised financial statements by charging a net amount of £188,000 to the CIES and schools reserves and reducing cash by £240,000, creditors by £89,000 and debtors by £37,000. Our audit work on 'Oracle' schools balances and transactions is still in progress.
DEBTORS	We have audited a sample of debtor balances to supporting documentation to confirm existence and recoverability.	There is balance of £940,000 within debtors which has not been satisfactorily justified and does not appear to be a valid recoverable debtor. This is recorded as an unadjusted audit difference in Appendix II.
PRIOR PERIOD ADJUSTMENTS	We have reviewed the prior period adjustments processed by the Council. *(Continued)*	**IAS 19 Employee benefits** Following the amendments to IAS 19 the Council has correctly restated its defined benefits pension schemes note. However, the restatements to the 2012/13 comparatives for net cost of services, financing and investment income and expenditure and other comprehensive income and expenditure in the current year's CIES did not agree to the supporting note. This is being corrected in the revised financial statements.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
PRIOR PERIOD ADJUSTMENTS		**Property, plant and equipment** The draft financial statements included a prior period adjustment of £633,000 for the land element of council dwellings that was erroneously removed from property, plant and equipment when the buildings were demolished in the prior year. However, the misstatement was not material and therefore should not have been accounted for as a prior period adjustment. Amendments are being made to the draft financial statements to correct this issue in the current year. **Prior period adjustments note** As a result of the audit, a prior period adjustment note has been included in the revised financial statements to disclose the impact of the IAS 19 restatement and the restatement of property, plant and equipment and associated reserve balances as a result of buildings demolished in the prior year (this issue has been reported in the significant audit risk areas section above).
INVESTMENT PROPERTIES	We reviewed the breakdown of assets comprising investment properties and made enquiries of officers to assess whether the properties continue to meet the definition for classification as investment properties.	**Transfer to investment properties** The draft financial statements included a £349,000 transfer from property, plant and equipment to investment properties by the valuer. As the asset does not meet the definition of an investment property, it has been transferred back to property, plant and equipment in the revised financial statements. **Disposals of investment properties** During the audit finance officers informed us that investment properties included aerials with a carrying value of £249,000 that relate to flats that were demolished and removed from the fixed asset register in prior years. The aerials were not relocated elsewhere on council property and are no longer held by the Council. The Council has derecognised this asset from its investment property in the revised financial statements and increased expenditure on investment properties, with a consequent decrease in the capital adjustment account through the Movement in Reserves Statement.
NON-DOMESTIC RATES INCOME	We reviewed the calculation of non-domestic rates income in the CIES and compared to the value of the precept in the Collection Fund.	The Council's share of the Collection Fund deficit for non-domestic rates collection in the year was incorrectly presented in the draft financial statements. Amendments have been made in the revised financial statements to decrease the Council's non-domestic rates income and increase its revenue support grant by £274,000, and to correctly present the impact of this in the collection fund adjustment account.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
2012/13 COMPARATIVES	We compared the 2012/13 comparatives in the draft financial statements to the prior year audited financial statements.	Our review of the draft financial statements found that a number of the 2012/13 comparative figures had been incorrectly carried forward from the prior year's final audited financial statements (excluding the effects of prior period adjustments). Amendments that have been made in the revised financial statements to address this issue include amendments to: • income and expenditure across all services on the face of the CIES • the split of financing and investment income and expenditure in the CIES • net off bank overdraft from cash and cash equivalents in the Balance Sheet • separately disclose pension liability and other long term liabilities in the Balance Sheet • the Cash Flow Statement and supporting notes • the property, plant and equipment note • the financial instruments note • the amounts reported for resource allocation decisions note.
SEPECIAL EDUCATION NEEDS CREDITOR ACCRUAL	We reviewed the Council's calculation for the accrual and assessed the reasonableness of the estimate by reference to actual payments made.	Our testing of the accrual found that the Council had omitted to accrue for £99,000 in respect of independent schools. This is recorded as an unadjusted audit difference in Appendix II.
ACCOUNTS DISCLOSURES	We reviewed material accounting disclosures to confirm that they are correctly stated and in compliance with the requirements of the Code.	The following presentational and disclosure amendments are being made to the draft financial statements, in addition to issues reported above: • removal of irrelevant disclosures with 'nil' values • disclosure of accounting standards issued but not yet adopted, including the fact that under IFRS 10 Consolidated financial statements the Council will need to consolidate into its single entity financial statements all maintained schools • disclosure regarding the proposed transfer of certain children's services out of the Council's control in the Events after the Balance Sheet date note and a contingent liability for the potential additional costs of the transfer

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
ACCOUNTS DISCLOSURES		• disclosure of movements on all significant earmarked reserves **(Material corrected disclosure misstatement)** • disclosure of movements on PFI assets in the year in the property, plant and equipment note • inclusion of useful economic lives in intangible assets note • reclassification of £390,000 debtors from 'other entities and individuals' to 'other local authorities' (£134,000) and 'NHS bodies' (£255,000) in the debtors note • separate disclosure of bank overdraft in the cash and cash equivalents note • changes to the presentation of the creditors note to disclose the categories of creditors as required by the Code • decrease grants received in advance and increase creditors by £269,000 for movements in grants received in advance that were incorrectly classified to creditors • inclusion of the Berkshire Community Equipment Service in the pooled budget note • a number of amendments to the exit packages note, to increase in the disclosed cost of redundancies by £163,000 • correction of the value disclosed for payments to Teachers' Pensions in the year, from £2.68 million to £3.497 million • amendments to the HRA notes to correctly disclose depreciation and impairment reversals and HRA capital expenditure, and to include disclosures for pooling of capital receipts and debtor impairment allowance **(Material corrected disclosure misstatement)** • disclosure of the vacant possession value of dwellings as at 1 April 2013 **(Material corrected disclosure misstatement)** • correction to the non-domestic rateable values disclosed in the Collection Fund notes as they did not agree to the national non domestic rates systems or the Valuation Officer listing; 31 March 2014 figure amended from £89.008 million to £219.866 million and 31 March 2013 figure amended from £89.855 million to £223.656 million. **(Material corrected disclosure misstatement)**

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

CONTROL ENVIRONMENT
Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

Key: ■ **Significant deficiency in internal control** ■ **Other deficiency in internal control** ■ **Other observations**

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
WORKING PAPERS	Whilst there has been improvement in the quality of the Council's working papers since the prior year, there remains significant scope for improvement. A detailed file of electronic working papers was provided to us on 7 July 2014, in accordance with the agreed timetable. However, our review of these working papers found a significant number of gaps and variable quality. Our comparison to the detailed schedule of working papers provided to the Council indicated that (in our view) only a third of the working papers were in sufficient detail to allow an effective starting point for the audit of those balances.	Inadequate working papers to support the financial statements may result in material misstatements within the financial statements occurring or being undetected. It also results in audit delays and potentially additional audit fees.	Management should carry out a critical review of the outcomes of the 2013/14 audit to identify the areas where further improvements need to be made in closing down the accounts and producing effective working papers.
PROPERTY VALUATIONS	There remains scope for improvement in the Council's evidence supporting the carrying value of properties that have not been revalued in the year.	Insufficient management review in this area could result in material misstatements in property, plant and equipment.	Management should more fully document its thought process and evidence to support the representation that the carrying values of non-current assets that have not been formally revalued in the year remain materially accurate as fair value at year end.
USEFUL ECONOMIC LIVES	There remains scope for improvement in the evidence supporting management's annual review of useful lives, depreciation methods and residual values of all classes of assets.	Insufficient management review in this area could result in material misstatements in property, plant and equipment.	Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets, particularly where assets have not been formally revalued.

CONTROL ENVIRONMENT

Significant deficiencies and other observations (continued)

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
SPECIAL EDUCATION NEEDS ACCRUAL	There were a number of issues regarding the working papers provided to support the year end SEN accrual. In addition these do not clearly show how the prior year accrual compared to the actual payments made post year end and therefore the extent of any under/over accrual from the prior year impacting on the current year.	Inadequate working papers in this area could result in a misstatement in the year end SEN creditor accrual.	Management should carry out a critical review of the working papers produced to support the year end SEN accrual to ensure that they fully evidence all assumptions made and any impact from prior year under/over accruals.
FIXED ASSET REGISTER	Internal Audit's conclusion on the asset register in 2013/14 is rated 'amber' as the majority of its previously stated recommendations in this area have not been fully implemented.	Inadequate controls over the fixed asset register could result in material misstatements in property, plant and equipment.	Management should ensure that Internal Audit's recommendations on the asset register review in 2013/14 are fully implemented in accordance with agreed timelines.
PURCHASE ORDERS	Throughout 2013/14 a number of purchase requisitions have continued to be raised retrospectively (16 out of 25 tested by Internal Audit), although management anticipates that the Council's new 'No Purchase Order, No Pay' Policy from 1 April 2014 will improve this position.	Whilst no payments can be made until invoices are appropriately authorised, good practice indicates that purchase requisitions should be appropriately approved before ordering and receiving goods and services. Failure to do so could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.	Management should continue to monitor compliance with its new 'No Purchase Order, No Pay' policy, as failure to comply with this policy could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.

CONTROL ENVIRONMENT
Significant deficiencies and other observations (continued)

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
CAPITAL EXPENDITURE ON COUNCIL DWELLINGS	The Council incurred expenditure of £8.166 million on the refurbishment of its housing stock in the year. This amount had been derecognised from property, plant and equipment as a proxy for the deemed carrying amount of the replaced components. This treatment is acceptable under the Code, however the *Code Guidance notes for practitioners 2013/14* states that this amount should be adjusted for any depreciation and impairment.	Cumulatively over time property, plant and equipment will be misstated if this issue is not addressed.	The Council's closedown procedures should include a process to calculate a reasonable carrying value for replaced components of council dwellings, which takes account of any accumulated depreciation and impairment, rather than derecognising the components at the same value as the capital expenditure incurred.
EMPLOYMENT TAXES	As part of our risk assessment procedures for the audit, our employment taxes specialist has carried out a review of the Council's arrangements in respect of employment taxes and raised a number of recommendations for improvement.	The Council's records may not fully meet HMRC requirements.	Management should monitor the implementation of the recommendations raised by BDO's employment taxes specialist.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

GOVERNANCE REPORTING
Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2014. As part of our planning for the audit, we prepared a detailed schedule of working papers and a database of template working papers for the audit trails we expected to receive with the draft financial statements. A number of meetings were also held with finance officers in the lead up the accounts closedown to discuss working paper requirements.	A detailed file of electronic working papers was provided to us on 7 July 2014, in accordance with the agreed timetable. However, our review of these working papers found a number of gaps and quality issues. Comparison to the detailed schedule of working papers provided to the Council found that only a third of the working papers were in sufficient detail to allow an effective starting point for the audit of those sections. We have raised a recommendation in the action plan at Appendix IV regarding working papers.

ANNUAL GOVERNANCE STATEMENT	CONCLUSIONS AND AUDIT ISSUES
We are required to review the draft annual governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	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).

STATEMENT OF ACCOUNTS	CONCLUSIONS AND AUDIT ISSUES
We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our review of the explanatory foreword found a significant number of typographical errors which the Council corrected. Subject to amendments to the reported surplus on the Collection Fund and table of key reserves, we are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS
Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

CONCLUSION AND AUDIT ISSUES

We have not yet received the Council's revised 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 when complete.

ASSURANCE STATEMENT

Subject to completion of our review, we do not expect to report any issues.

USE OF RESOURCES

Scope of the review

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).

AUDIT COMMISSION SPECIFIED CRITERIA	FOCUS OF REVIEW
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 focus of the criteria is that the Council 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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. We draw sources of assurance relating to their value for money responsibilities from: • the Council's system of internal control as reported on in its annual governance statement • the results of the work of the Commission, other inspectorates and review agencies • any work mandated by the Commission • any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.	We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates. In our audit plan we reported the follow significant risks to the Council: • achieving the efficiency savings plans published in the Medium Term Financial Strategy, including the savings planned from the transactional services hub • addressing serious weaknesses identified in services for children in need of help and protection, children looked after and care leavers identified by the external regulator (Ofsted) following an unannounced inspection in November 2013 • addressing the weaknesses identified by Internal Audit in contract management • achieving the objectives set for the Slough Wellbeing Board and delivery of public health responsibilities.

USE OF RESOURCES
Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL GOVERNANCE	AUDIT ISSUES AND IMPACT ON CONCLUSION
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 management 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. The outcome of our audit of the 2013/14 financial statements is summarised earlier in this report and contains recommendations which the Council has accepted to further improve arrangements for preparing the annual financial statements and to embed these effectively.	Action is needed to further strengthen arrangements for preparing the annual financial statements and to embed these effectively.

FINANCIAL PLANNING	AUDIT ISSUES AND IMPACT ON CONCLUSION
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 (CMT) 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 MTFS for 2013 – 2018 (which includes the 2013/14 budget), as approved by Cabinet in February 2013, identified a savings target of £16.3 million for the five year period, of which £9.4 million related to 2013/14, and a budget gap of £7.4 million which requires further savings to be identified over the period. From April to July 2013 a number of key aspects contained within the original assumptions were clarified as a result of the Local Government Finance Settlement, or were altered as a result of the Comprehensive Spending Review, and amendments were made to the 2013/14 budget and MTFS. The Council also carried out an exercise to rebase its MTFS assumptions. The Council set a balanced budget for 2014/15 in February 2014. The savings target is £12.5m and specific schemes have been identified for the full savings requirement, although there is some risk attached to £6 million of these schemes and work is in progress to ensure that all required savings are delivered. The most recent MTFS 2015 – 2019 (which covers the four years from 2015/16) indicates a savings requirement of £37 million for the four year period from 2015/16, of which £14.6 million is planned to be achieved in 2015/16. Management has identified specific schemes totalling £9 million, although we are informed that further schemes are being identified. Savings plans include significant transformational changes within the Wellbeing directorate and contracts renegotiation. The Council has invested in its financial management resource and contract monitoring / procurement resource in 2013/14 and the full benefits of this are expected to materialise in 2014/15.	Resource gaps have been identified for the period 2015/16 to 2017/18, 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.

USE OF RESOURCES
Financial resilience (continued)

FINANCIAL PLANNING (CONTINUED)	AUDIT ISSUES AND IMPACT ON CONCLUSION
Internal Audit's conclusion on the 2013/14 budget setting process was rated 'amber' (meaning that some assurance was provided however further action required by the Council to manage risks). Action was taken to address the issues raised by Internal Audit, including substantial changes to the savings proforma to fully explain the consequences of the proposed saving, and updating the MTFS to reflect the expected cost position with regards to the transactional services hub. These improvements are reflected in Internal Audit's conclusion on the 2014/15 budget setting process, which is rated 'green'. The Council has undertaken a number of benchmarking exercises to compare costs and value for money with other unitary councils, for all key services. The Audit Commission's value for money tool 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 the benchmarking will also be utilised to help inform where further savings can be achieved going forward through the MTFS.	

FINANCIAL CONTROL	AUDIT ISSUES AND IMPACT ON CONCLUSION
Internal Audit's review of budgetary control and savings plan monitoring for 2013/14 found that controls in this area are generally suitably designed, consistently applied and effective. Recommendations for improvement in procedures for the authorisation of budget virements and the formal monitoring of savings were reported. 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 and contributed £150,000 net underspends to a future budget reserve. There was a forecast overspend of £1 million at the beginning of the year but this was managed down throughout the financial year. A significant overspend was reported by the Children and Families Division of the Wellbeing Directorate due to increasing demand for services and the higher cost for agency staff. This was offset by the Directorate mostly by planned underspends and early achievement of efficiency programmes in Adult Social Care, with some Education (non-schools) contribution. The Council achieved £7.4 million of its £9.3 million savings target for the year. This savings achieved comprise savings to the general fund and reductions in capital costs. The shortfall was largely due to expected savings from the outsourced transactional service not being fully delivered in the year, as additional investment in the service was required. The general fund balance as at 31 March 2014 is £8.1 million, which is in line with the previous year and at the Council's minimum approved level. Earmarked reserves have decreased by £6.5 million as planned. Overall usable reserves have increased by £13.5 million, however this includes a £12.3 million increase in the capital receipts reserve. The ratio of usable reserves to gross revenue expenditure for the Council in 2012/13 is comparable with the Council's nearest statistical neighbours.	No areas of significant concern.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Arrangements for the protection of children, looked after children and Care Leavers and the effectiveness of the Local Safeguarding Children's Board In 2011, Ofsted judged Slough's services for safeguarding and looked after children to be inadequate. The Council prioritised improvement in such services and established an Improvement Board to oversee the action necessary to achieve this. The 'Safeguarding Improvement Plan' was identified as a Council 'gold project' for close scrutiny and Members received regular received on progress throughout 2012 and 2013. In December 2013 Ofsted completed a review of services for children in need of help and protection, children looked after and Care Leavers. While recognising improvement had been made in specific areas, Ofsted also concluded that insufficient progress had been made since 2011 and judged the services it reviewed were inadequate overall. Ofsted's public report stated 'there are widespread and serious failures that create or leave children being harmed or at risk of harm and serious failures and unnecessary delay in identifying permanent solutions for looked after children which result in their welfare not being safeguarded and promoted'. Ofsted also concluded arrangements for securing the effectiveness of the Local Safeguarding Children Board were inadequate (by Ofsted's definitions) and that the Board could not demonstrate the required skills to discharge its statutory duties. Positively, Ofsted concluded • the LSCB made clear improvements in the last year from a low starting point, particularly in the scope of its scrutiny and analysis activities and is well placed to drive improvements • accountabilities between the Independent Chair of the LSCB, Slough's Department for Children's Services and the Council's Chief Executive are clearly defined. • partnership working was becoming more effective in some areas, increasing the impact of the LSCB's challenge to partner agencies. Ofsted identified this as the most important area for the LSCB to develop. In discussion with the Department for Education (DfE) the Council agreed the work of the Improvement Board should cease as at 31 March 2014 in the expectation that the Secretary of State would exercise powers available to him to direct how Children's Social Care services should be delivered in Slough in the future. Since March 2014, the Council has continued to deliver planned investment and improvement projects under the leadership of the Director of Children's Services and the Senior Management Team with the aim of securing better outcomes for children in need of protection and for looked after children and Care Leavers. More widely, the Council has taken action to build capacity in the Children's Social Care Services department with the establishment of a stable senior management team and investment in a new workforce strategy for the service, implemented from January 2014	Our VFM conclusion will be qualified.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness (continued)

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION

In June 2014 an independent research company published a report into Slough's Children's Social Care Services as requested by the Department for Education. The Parliamentary Under Secretary for the government department considered the report and wrote to the Council on 15 July 2014 confirming that that he (the Minister) is minded to remove Children's Social Care Services from the Council's control. An independent trust for the provision of Slough Borough Council's Children's Social Care Services is being considered by the DfE under section 497A (4A) of the Education Act 1996. As at 30 September 2014, the Council is continuing to work with the DfE to determine a model with the legal structures and governance arrangements to deliver children's social care services in the future. The Council anticipates this process will continue throughout the 2014/15 financial year and in the meantime, it has decided to establish a new internal improvement board which will take effect from, mid September.

The Council has reported some positive outcomes from the additional investment it has made in children's social care services over the last 12 months:

- the number of cases (children) managed by individual social workers is reducing (from over 30 children in 2013 to an average which is the target of 18 children per social worker in 2014)
- the workforce strategy has resulted in the employment of more social workers and qualified managers. There is an improving balance between permanent and temporary staff and the ratio is 42%:58% (the Council recognises more work is needed to continue the trend and has agreed 'next steps' accordingly)
- an 'Early Help Board' has been established to oversee the access to services and assessment of needs for children who may require early intervention and prevention. The Council, with partners, is working to support more children and families through early help and correspondingly reduce the number and the rate of children requiring social care intervention or subject to a protection plan which while reducing, remains high
- performance has improved against a range of performance indicators. For example as at July 2014, 98% of children subject to a protection plan had received a visit within each two week period, against a national benchmark of a visit every six weeks. The Council believes the 'Effectiveness of Practice' audits also show improvement in the quality of social worker practice
- a Service Transformation Board has been established designed to drive improvement in services for looked after children and to take forward the positive outcomes the Council is reporting for its adoption services.

While recognising some recent, positive outcomes have been reported by the Council in Children's Social Care Services, because of the significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, the outcome of the inspection in 2013 and the decision of the Department for Education to consider a transfer of Children's Social Care Services out of the Council's control, we have qualified our value for money conclusion. We have also had regard to the inadequate judgement published by Ofsted about the effectiveness of the Local Safeguarding Children's Board in reaching our conclusion.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness (continued)

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Slough Wellbeing Board The Slough Wellbeing Board ('the Board') was established with full statutory powers on 1 April 2013 with relevant partners in accordance with the Government's timetable. The implementation of the Board's objectives is being taken forward through six Priority Delivery Groups (PDGs) and various sub-groups, which includes a Health PDG. The Board agreed a performance monitoring scorecard, based on a suite of key performance indicators selected by the Board for each priority area. This scorecard will be updated with the Board's priorities and the aim is for reporting by exception to be presented quarterly to the Board going forward. During 2013/14 internal monitoring of performance indicators was carried out. A number of value-added projects are in place through the work of the Board, including place-shaping partnership work to improve access to a range of wellbeing services in two areas with high need. In March 2014 the Board received a report on the progress being made under the 'Healthy Lives, Healthy People, Healthy Slough Strategy' for 2013-16 and this reported that significant progress had been made in the first year of the Strategy. Particular achievements were made in respect of prevention, early intervention and targeted intervention, for example the number of GP practices offering health checks had doubled from 5 to 10 over the last year. The Board has received reports on the provisions of the new Care Act (2014), which will come into force on 1 April 2015, and the funding that will be available to support the reforms through the Better Care Fund. A Care Act implementation programme board has been established with key workstreams and owners to deliver each aspect of the Act. The programme will report into the Council's Wellbeing Senior Management Team with progress reports to the Corporate Management Team, Health Scrutiny, Cabinet and the Wellbeing Board as required.	No areas of concern.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness (continued)

IMPROVING EFFICIENCY AND PRODUCTIVITY	AUDIT ISSUES AND IMPACT ON CONCLUSION
Contract management Internal Audit's review of contract management in the prior year concluded there was no contract management framework in place, the contracts register was not fully completed and performance information from suppliers was not always sufficient to enable management to determine whether value for money was being achieved. Since then the Council has invested in senior resource to carry out a review of its major contracts, recognising the need to improve the management of major contracts to drive cashable efficiency savings. The review, which commenced in 2013/14 and is ongoing, involved a programme of meetings and training sessions with contract managers and benchmarking exercises. At the same time a restructuring has taken place and a new Contracts, Commissioning and Procurement Division was consulted upon in June 2014. This is supported by a Task and Finish Group that will consider alternative delivery models for the Council's contracts going forward. Whilst Internal Audit's review of specific contracts in 2013/14 has resulted in a number of high priority recommendations which the Council is working to address, its overall procurement review conclusion issued in May 2014 was rated 'amber/green'. This improved rating reflects the progress that had been made since the last 'red rated' review, as a result of the implementation and roll-out of In-Tend software system (implemented in February 2014) and improvements to the Procurement Review Board governance.	No areas of concern.

USE OF RESOURCES CONCLUSION
On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in most respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014, with the exception of the arrangements for the protection of children, looked after children and Care Leavers and securing the effectiveness of the Local Safeguarding Children Board.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Slough Borough Council
Management	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	The person(s) with responsibility for assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Risk Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Risk Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections to the draft financial statements in respect of the following material misstatements:

- Indexation of council dwellings (£17.861 million, this entry is still being audited)
- Consolidation of the HRA into the CIES (£12.851 million)
- Internal recharges (£10.882 million)
- Prior year adjustment for two buildings demolished in prior years (£6.193 million)
- Reclassification of public health income and expenditure (£5.305 million and £5.287 million respectively)
- Cash Flow Statement
- Financial instruments note
- Amounts reported for resource allocation decisions note
- Senior officers' remuneration bandings note
- Leases note

These amendments, together with the other non-material amendments that have been processed, have reduced the deficit for the year by £10.331 million, from £13.334 million to £3.003 million. However, these corrections relate either to reclassifications of transactions or balances, or capital items which are subsequently reversed through reserves, therefore there is no impact on the closing general fund balance. A schedule of corrected audit differences is included on the following pages.

UNADJUSTED AUDIT DIFFERENCES

There are seven unadjusted audit differences identified by our audit work which would increase the revised deficit on the provision of services by £1.995 million to £4.998 million (from £3.003 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance has decreased the reported underlying deficit for the current year by £390,000.

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES deficit on the provision of services after corrected adjustments above	**3,003**				
Impact of prior year unadjusted misstatements					
Dr Property plant and equipment, accumulated depreciation (opening balance)				420	
Cr Capital adjustment account (opening balance)					(420)
Estimated overstatement of depreciation on land and buildings due to use of weighted average useful economic life rather than actual economic life provided by the valuer (judgemental misstatement - estimate)					
Misstatements identified in the current year					
Dr Service income in the CIES	**1,000**	1,000			
Cr Service expenditure in the CIES	**(1,000)**		(1,000)		
Extrapolation of potential misclassifications of internal recharges as a result of errors found in our sample testing (judgemental misstatement - extrapolation)					
Dr Service expenditure in the CIES	**1,500**	1,500			
Cr Service expenditure in the CIES	**(1,500)**		(1,500)		
Extrapolation of potential misclassifications between service lines as a result of errors found in our sample testing (judgemental misstatement - extrapolation)					
Dr Local authority housing expenditure (depreciation)	**852**	852			
Cr Property, plant and equipment (council dwellings accumulated depreciation)					(852)
Dr Capital adjustment account				852	
Cr General Fund (through the Movement in Reserves Statement)					(852)
Increase in depreciation on council dwellings if componentisation is applied (judgemental misstatement - estimate). This entry does not impact on the overall general fund balance as the charge to the CIES would result in a debit to the general fund, which would be reversed to the capital adjustment account through the Movement in Reserves Statement.					
Dr Service income in the CIES	**940**	940			
Cr Debtors					(940)
Write off of invalid debtor balance (factual misstatement)					

Unadjusted audit differences (continued)

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
Dr Reserves (revaluation reserve and/or capital adjustment account)				398	
Dr Loss on disposal of non-current assets in the CIES	**104**	104			
Cr Property plant and equipment (other land and buildings					(502)
Dr Capital adjustment account				104	
Cr General Fund (through the Movement in Reserves Statement)					(104)
Correction of misstatement relating to incorrect DRC valuations (factual misstatement). This entry does not impact on the overall general fund balance as the charge to the CIES would result in a debit to the general fund, which would be reversed to the capital adjustment account through the Movement in Reserves Statement					
Dr Education and children's services expenditure	**99**	99			
Cr Creditors					(99)
Inclusion of omitted special needs education accrual for independent schools (factual misstatement)					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**1,995**	4,495	(2,500)	1,774	(3,769)
CIES deficit on the provision of services if the accounts are adjusted for the above issues	**4,998**				

OTHER UNADJUSTED MATTERS
Our prior year audit found that the Council had potentially overstated its expenditure and creditor accruals by £801,000 (extrapolation of identified misstatements over the untested population) and had understated its net expenditure on schools by £1.191 million. The current year deficit is lower, and the opening general fund balance is higher, than they would have been had the potential and actual misstatements been detected and corrected in the prior year.

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of 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, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY	
Planning materiality	£4,300,000
Final materiality	£4,300,000
Clearly trivial threshold	**£86,000**

Planning materiality of £4.3 million was based on 1% of gross expenditure, using the draft financial statements.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

Follow-up of prior year recommendations

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Working papers Management should carry out a detailed review of its 2012/13 closedown process to identify how improvements can be made. This should include a critical evaluation of working papers against audit requirements. BDO will assist in this process to ensure that our requirements continue to be appropriately tailored to the Council and fully understood by all relevant staff.	The Council set up an accounts closedown project group to oversee the preparation for and delivery of the 2013/14 accounts closedown process. The project plan set out the processes and arrangements that needed to be put in place by the finance team, service areas and third party provider to effectively produce the financial statements for 2013/14. The project plan also included actions to ensure that supporting working papers were adequate and produced on a timely basis. A detailed file of electronic working papers was provided to us on 7 July 2014, in accordance with the agreed timetable. However, our review of these working papers found a number of gaps and quality issues. Comparison to the detailed schedule of working papers provided to the Council found that only a third of the working papers were in sufficient detail to allow an effective starting point for the audit of those sections.	Whilst there has been improvement in the quality of the Council's working papers since the prior year, there remains significant scope for improvement. Management should carry out a critical review of the outcomes of the 2013/14 audit to identify the areas where further improvements need to be made in closing down the accounts and producing effective working papers.	A further review will be undertaken after the audit is completed to inform 2014-15 accounts closedown. Improvements have been made since the previous year and these will continue to be build upon. A 'soft' month 9 closedown will be completed to assist in preparing some of the areas mentioned in this report earlier. Receiving BDO's working paper requirements during the preparation for closedown will greatly assist this process.	Corporate Financial Controller	January 2015

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Related party disclosures As part of the accounts closedown processes, finance officers should review the general ledger for any transactions with entities with whom officers and Councillors have declared interests. The value of the transactions should be considered from the viewpoint of both the Council and the related party in deciding whether or not the transactions should be disclosed in the related parties note.	Minor amendments have been made to the related parties note in the financial statements as a result of our audit, to disclose the value of transactions with related parties. The recommendation is considered implemented.	**None**	**N/A**	**N/A**	**N/A**
Property valuations Management should more fully document its thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end.	There remains scope for improvement in the Council's evidence supporting the carrying value of properties that have not been revalued in the year.	Management should more fully document its thought process and evidence to support the representation that the carrying values of non-current assets that have not been formally revalued in the year remain materially accurate as fair value at year end.	A review will be completed in conjunction with valuers.	Corporate Financial Controller	January 2015

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Depreciation of non-current assets : Useful economic lives (a) Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets. (b) The fixed assets register should be updated to ensure that all assets are appropriately depreciated in accordance with the Code requirements. (c) The fixed assets register should be updated to ensure that leased assets are being depreciated over the shorter of the lease life or the expected life of the asset.	There remains scope for improvement in the evidence supporting management's annual review of useful lives, depreciation methods and residual values of all classes of assets. Our audit work found no issues with regards to depreciation calculations in the fixed asset register, including depreciation on leased assets. Parts (b) and (c) of the recommendation are considered to be implemented.	Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets, particularly where assets have not been formally revalued.	Management will review its methodology of useful lives and residual values as part of its month 9 review.	Corporate Financial Controller	January 2015
Periodic income and expenditure Management should review the Council's approach to periodic income and expenditure at year end to ensure that it does not result in a material misstatement of income for the year.	Our audit testing did not find any issues with regards to periodic income or expenditure in the current year. The recommendation is considered to be implemented.	**None**	N/A	N/A	N/A
Accrual for special education needs (SEN) Management should ensure that the year end accrual for out-of-borough special education need placements is estimated by taking account of the actual number of placements and the expected cost for each; in the light of the accuracy of the prior year accrual.	There were a number of issues regarding the working papers provided to support the year end SEN accrual. In addition these do not clearly show how the prior year accrual compared to the actual payments made post year end and therefore the extent of any under/over accrual from the prior year impacting on the current year.	Management should carry out a critical review of the working papers produced to support the year end SEN accrual to ensure that they fully evidence all assumptions made and any impact from prior year under/over accruals.	Management will review how this is accounted for going forward.	Corporate Financial Controller	January 2015

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
HRA share of corporate and democratic core costs The Council should review its recharges and recalculate the HRA share of corporate and democratic core costs on an appropriate basis. This calculation should be reviewed regularly.	Finance officers have reviewed the calculation and amended the charge to the HRA in 2013/14. Recommendation implemented.	**None**	**N/A**	**N/A**	**N/A**
CONTROL ENVIRONMENT					
Fixed assets register Management should ensure that the following recommendations raised by Internal Audit on the fixed asset register are implemented: • the Council should carry out an exercise to ensure the accuracy of the asset register. • the Council should embed a process whereby all assets for disposals are clearly communicated to the Principal Capital Accountant through the use of a form that this officer is required to sign to confirm removal of disposed assets from the Asset Register or justification is documented to explain why nil value assets remain recorded. The Council should carry out a full review of its fully depreciated assets to determine whether they are still in use and have a value to the Council or whether they should be removed from the fixed assets register and the accounts.	Internal Audit's conclusion on the asset register in 2013/14 is rated 'amber' as the majority of its previously stated recommendations in this area have not been fully implemented. The Council has reviewed its fixed asset register and written out a number of assets that are no longer in use of held by the Council. Work is in progress to determine whether the Council needs to formally transfer title for its properties that are still registered in the name of the previous Berkshire County Council.	Management should ensure that Internal Audit's recommendations on the asset register review in 2013/14 are fully implemented in accordance with agreed timelines.	The internal audit report already has a completed action plan and we will be monitoring progress against this.	Head of Asset Management / Principal Accountant (Capital)	December 2015

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
In addition, the Council should seek legal advice as to whether or not it needs to formally transfer title for its properties that are still registered in the name of the previous Berkshire County Council.					
Business rates reliefs Management should ensure that the following recommendations raised by Internal Audit on business rates processes are implemented as a high priority: • an inspector should be put in place and regularly investigate empty properties and small businesses to ensure that these are still eligible for the reliefs and deductions they receive. An inspection timetable should be created to ensure that all properties in receipt of exemptions are inspected cyclically. • the transactional hub contractor should create a review timetable to ensure that regular checks are undertaken to confirm continued eligibility to reliefs and exemptions.	Internal Audit's review of business rates for 2013/14 found that considerable efforts had been made in implementing recommendations raised at the last audit review, although the appointment of a permanent inspector remained outstanding. Management had stated that an inspector is been in place since February 2014 (after Internal Audit's review), therefore recommendation is implemented.	**None**	**N/A**	**N/A**	**N/A**

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Register of interests The Council should issue further guidance to Councillors and officers to clarify that all directorships should be declared, including those where the post is held as a result of the individual's role in the Council.	Our audit found that one interest for councillors and senior officers was not declared in the current year, although it was declared in the prior year. Internal Audit has reviewed the new online system of declaring interests for all staff members and found that whilst it has yet to be implemented across all of the Council's Directorates, it is considered that progress is being made in embedding the new system and ensuring that staff are aware of how to use the system. It was noted, however, that further work is required to ensure that the declarations are completed by all members of staff. Internal Audit has raised recommendations in his area which management is working to address. Recommendation considered to be largely implemented.	**None**	**N/A**	**N/A**	**N/A**
Schools returns Management should work with the schools that failed to return all four of their quarterly certified returns on time for 2012/13, to ensure a clear timetable is agreed with the schools and implemented in future years.	Our audit in 2013/14 has not found any significant issues with regards to the receipt of schools returns. Recommendation considered to be largely implemented.	**None**	**N/A**	**N/A**	**N/A**

PRIOR YEAR RECOMMENDATION	OUTCOME OF FOLLOW UP	CURRENT YEAR RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Purchase orders Management should remind staff that all purchase requisitions should be raised and approved prior to orders being made for goods or services, in accordance with the Council's policies. Management should monitor compliance with these procedures.	In September 2013 the Assistant Director, Finance & Audit gave a presentation to the Council's senior leadership team which included the issue of purchase requisitions being raised retrospectively of receiving invoices. Throughout 2013/14 a number of purchase requisitions have continued to be raised retrospectively (16 out of 25 tested by Internal Audit), however management believes that the Council's new 'No Purchase Order, No Pay' Policy is fully in place from 1 April 2014.	Management should monitor compliance with its new 'No Purchase Order, No Pay' policy as failure to comply with this policy could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.	Monthly reports are being run to see progress against this policy and which services are improving performance. Training is also being rolled out to improve compliance in Autumn 2014.	AD, Finance & Audit	January 2015
NNDR journals Management should ensure that refunds to business ratepayers are appropriately authorised by an NNDR manager before being processed.	Internal Audit's sample testing confirmed that when a credit arises on a business account refunds are authorised by a different officer to the one which requested the refund to ensure appropriate segregation of duty.	**None**	**N/A**	**N/A**	**N/A**

New recommendations arising in 2013/14

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
Consolidation of schools transactions The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) are ineffective. The working papers and journals prepared to support transactions consolidated into the CIES and balance sheet were inadequate.	Transactions posted to the general ledger should be fully reconciled to underlying schools returns. Management should complete a review of the consolidation of schools transactions into the CIES and balance sheet as part of the accounts closedown process.	This will be reviewed as part of the closedown review highlighted above.	Corporate Financial Controller / Finance Manager (Wellbeing)	December 2014
Capital expenditure on council dwellings The Council incurred expenditure of £8.166 million on the refurbishment of its housing stock in the year. This amount had been derecognised from property, plant and equipment as a proxy for the deemed carrying amount of the replaced components. This treatment is acceptable under the Code, however the *Code Guidance notes for practitioners 2013/14* states that this amount should be adjusted for any depreciation and impairment.	The Council's closedown procedures should include a process to calculate a reasonable carrying value for replaced components of council dwellings, which takes account of any accumulated depreciation and impairment, rather than derecognising the components at the same value as the capital expenditure incurred.	This will be included in the management review of assets and as part of the month 9 closedown.	Principal Accountant (Capital)	January 2015
Employment Taxes As part of our risk assessment procedures for the audit, our employment taxes specialist has carried out a review of the Council's arrangements in respect of employment taxes and raised a number of recommendations for improvement.	Management should monitor the implementation of the recommendations raised by BDO's employment taxes specialist.	An action plan is in the process of being agreed.	Assistant Director Professional Services	January 2015

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)	**Financial statements section of this report**		
Significant difficulties encountered during the audit (ISA 260)	**Overview to this report**		
Significant matters discussed or subject to correspondence with management (ISA 260)	**No issues**		
The final draft of the representation letter (ISA 260)	**Appendix VI of this report**		
Independence (ISA 260)	**Independence section of this report**		
Fraud and illegal acts (ISA 240)	**No issues**		
Non compliance with laws and regulations (ISA 250)	**No issues**		
Significant deficiencies in internal control (ISA 265)	**Control environment section of this report**		
Misstatements, whether or not corrected by the entity (ISA 450)	**Appendix II of this report**		
Significant matters in connection with related parties (ISA 550)	**No significant issues**		
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)	**No issues**		
Matters relating to the audit of the group (ISA 600)	**No issues**		
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)	**No issues**		
Material inconsistencies with other information in documents containing audited financial information (ISA 720)	**No significant issues**		
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998	**No issues**		

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

23 September 2014

Dear Sirs

Financial statements of Slough Borough Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director of Finance and Audit (Section 151 Officer) has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity and the transactional services provider from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have 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 accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either requires changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving:

- councillors;
- management;

- employees; or
- others where the fraud could have a material effect on the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

(a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of increase in salaries 4.6%
- Rate of inflation 3.6%
- Increase in pensions 2.8%
- Rate for discounting scheme liabilities 4.5%
- Take up option to convert the annual pension into retirement grant -pre 31 March 2008 50%
- Take up option to convert the annual pension into retirement grant – post April 2008 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Housing stock

We are satisfied that the useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to us by the expert valuer appointed by the Council to provide this information.

We are satisfied that the componentisation split for council dwellings, of 15% for land and 85% for buildings, is reasonable.

We confirm that the index of 4.04% applied to council dwellings in the revised financial statements, as provided by the valuer, is reasonable and consistent with our knowledge of the business and current market prices. We have adjusted the financial statements for this increase.

(c) Carrying value of other land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2014. We confirm that no further adjustments are required to those assets that were not revalued at 1 April 2013.

We confirm that, in respect of the land and buildings reviewed for possible componentisation within the fixed assets register, we have reviewed the impact on the depreciation charge arising from the application of differing useful economic live to the separate components and are satisfied that it is not materially different from applying a single useful economic life to the entire asset value.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to us by the Valuation Office Agency. We confirm that the success rates applied to outstanding appeals as at 31 March 2014 (2.248% change in rateable value) is consistent with our knowledge of the business.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the accounting policies disclosed in the financial statements are sufficient.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that provisions for insurance claims of £718,000 and litigation of £500,000 represent constructive obligations and are disclosed as current liabilities in the financial statements as they expected to be settled in the next year.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

Yours faithfully

Joseph Holmes
Assistant Director of Finance and Audit

23 September 2014

Councillor Chohan
Signed on behalf of the Audit and Risk Committee

23 September 2014

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