



# SLOUGH BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND RISK COMMITTEE

Audit for the year ending 31 March 2015

February 2015

# CONTENTS

EXECUTIVE SUMMARY .....	1
SCOPE OF THE AUDIT .....	3
RISK ASSESSMENT .....	6
AUDIT TIMETABLE.....	10

# EXECUTIVE SUMMARY

We are pleased to present our audit plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Slough Borough Council for the 2014/15 financial year.

## Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

AREA OF AUDIT	SUMMARY OF SIGNIFICANT RISKS
Financial statements	<ul style="list-style-type: none"> <li>Inherent risk of management override of controls</li> <li>Inherent risk of fraud in revenue recognition</li> <li>Financial Statements preparation, consistency of disclosures with underlying records, and implementing the improvement plan agreed following our audit of prior year statements</li> <li>Classification of income and expenditure in the Comprehensive Income and Expenditure Statement in respect of internal recharges</li> <li>Consolidation of schools' income, expenditure, working capital balances and reserves</li> <li>Addressing any accounting and disclosure changes required by the new definition of 'control' within International Financial Reporting Standard (IFRS) 10, 11 and 12, including the recognition of schools' non-current assets where schools control such assets.</li> </ul>

AREA OF AUDIT	SUMMARY OF SIGNIFICANT RISKS
Use of resources	<ul style="list-style-type: none"> <li>Delivering the savings required by the Medium Term Financial Strategy and maintaining financial resilience in the light of reduced Government funding, demographic changes and the risks and uncertainties identified by the Council about the future cost and delivery of Children's Social Care Services</li> <li>Addressing the weaknesses identified by Ofsted in its inspection of Children's Social Care Services in November 2013; in the absence of sufficient evidence of improvement, there is a risk our value for money conclusion may be qualified (as in 2013/14)</li> <li>Addressing the weaknesses identified by Internal Audit in the Council's contract management arrangements to ensure that it is achieving value for money from such arrangements</li> <li>Achieving the objectives set for the Slough Wellbeing Board and developing appropriate governance arrangements for the full implementation of the Better Care Fund on 1 April 2015.</li> </ul>

## Fees

The proposed core audit fee for the year is £170,030 plus VAT, which agrees to the scale fee published by the Audit Commission.

This is £1,070 higher than the scale fee of £168,960 previously published by the Audit Commission, which we reported in our planning letter 2014/15. The increase is due to auditors no longer being required to undertake certification work on the national non domestic rates return, following the introduction of new arrangements for collecting and distributing business rates, and further audit work is now required in this area as part of the accounts audit.

The proposed fee for the certification of the housing benefits grant claim and pooled housing capital receipts return is £27,500 plus VAT, which agrees to the indicative scale fee published by the Audit Commission. This is £11,200 higher than the indicative scale fee of £16,300 previously published by the Audit Commission, which we reported in our planning letter 2014/15. The increase is due to a rebasing of the housing benefits grant claim fee to a level that better reflects the level of work required for certifying this claim.

If we need to propose any amendments to our audit fees during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fees, we will first discuss this with the Assistant Director of Finance and Audit and then seek approval from the Audit Commission for a proposed variation of fee. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Risk Committee.

## Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none"> <li>• Opinion on the financial statements</li> <li>• Value for money conclusion</li> <li>• Certificate</li> </ul>	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
Summary of findings from the audit in the Annual Audit Letter	October 2015
Report on the results of our grant claims and returns certification work	January 2016

# SCOPE OF THE AUDIT

## Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

## Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

## Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of

discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

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

## Financial statements

At the conclusion of the financial statements audit we give our opinion on the financial statements, including whether:

- they give a true and fair view of the financial position at the year end and the expenditure and income for the year
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards

We also provide an opinion on whether the information given in the Explanatory Foreword is consistent with the financial statements.

We report by exception if we are unable to satisfy ourselves that the Annual Governance Statement is not inconsistent with our knowledge.

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

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit to minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

## Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit and Risk Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the Assistant Director of Finance and Audit.

We will write to the Chairman of the Audit and Risk Committee to request confirmation of how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

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

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

## Materiality and triviality

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

For planning purposes, we have set materiality at £4.2 million (1% of average gross expenditure in the Comprehensive Income and Expenditure Statement).

For reporting purposes, we consider misstatements of less than £84,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit and Risk Committee are required to consider and we will request that you correct them.

## Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience; the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness; the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will plan a programme of use of resources audit work based upon our risk assessment.

## Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

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

## Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns in accordance with the certification instruction issued by the Audit Commission. We express a conclusion as to whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

## Engagement partner

Robert Grant is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

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

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

In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

## Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission’s current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. A transitional body will oversee the contracts in the intervening period. The transitional body is the Public Sector Audit Appointments Limited and is an independent, private company created by the Local Government Association.

Several of the Audit Commission’s functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission’s data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission’s counter-fraud function will transfer to a new public sector ‘Counter Fraud Centre’ to be established by the Chartered Institute of Public Finance and Accountancy.

## Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Slough Borough Council for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

# RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<b>MANAGEMENT OVERRIDE</b>	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
<b>REVENUE RECOGNITION</b>	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income.	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.



**FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS**

RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<p><b>FINANCIAL STATEMENTS PREPARATION</b></p>	<p>Our prior year audit identified weaknesses in the Council’s arrangements for preparing the financial statements. A significant number of misstatements were identified, where the financial statements were inconsistent with underlying records. These were corrected in the final financial statements, including material amendments to the following statements and notes:</p> <ul style="list-style-type: none"> <li>• Comprehensive Income and Expenditure Statement (CIES), for consolidation of the Housing Revenue Account transactions</li> <li>• Cash Flow Statement and supporting notes</li> <li>• Financial instruments note</li> <li>• Amounts reported for resource allocation decisions note</li> <li>• Senior officer remuneration bandings note</li> <li>• Housing Revenue Account notes.</li> </ul> <p>Management is working to address these weaknesses in producing the 2014/15 financial statements.</p> <p>However, until improved outcomes can be demonstrated, including sufficient progress against the recommendations made in the prior year, there is a risk regarding the accuracy of these disclosures in the 2014/15 financial statements.</p>	<p>Accuracy of disclosures.</p>	<p>We will work with the finance team to assess progress towards the project for improving production of the 2014/15 financial statements. This will include:</p> <ul style="list-style-type: none"> <li>• carrying out an early review of the draft financial statements against the requirements of the <i>Code of practice for Local Authority Accounting 2014/15</i></li> <li>• issuing a detailed list of audit working paper requirements and briefing finance staff on our expectations for good quality working papers</li> <li>• reviewing the consistency of the financial statements with underlying working papers before the start of the onsite audit visit</li> <li>• obtaining assurance that management has carried out a critical review of the financial statements before they are submitted for audit; this could be evidenced by comprehensive explanations for all significant variances from the prior year.</li> </ul>
<p><b>CLASSIFICATION OF INCOME AND EXPENDITURE</b></p>	<p>Our prior year audit found a significant number of instances where support costs and overheads that were recharged from one service to another within the Council were incorrectly classified within the CIES, resulting in an overstatement of both gross income and gross expenditure.</p> <p>There is a risk of material misstatement of the 2014/15 financial statements if internal recharges are not correctly classified in the general ledger.</p>	<p>Presentation of income and expenditure.</p>	<p>We will substantively test an extended sample of internal recharge transactions to check whether they have been correctly accounted for on a net basis within the CIES.</p>

**FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS**

RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<p><b>SCHOOLS TRANSACTIONS</b></p>	<p>In the prior year we reported that the Council’s arrangements for consolidating schools’ income, expenditure, working capital balances and reserves required improvement.</p> <p>There is a risk of material misstatement in the 2014/15 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions are not addressed.</p>	<p>Existence, completeness and accuracy of income, expenditure, working capital balances and reserves in relation to schools.</p>	<p>We will review reconciliations between the general ledger and returns submitted by schools to support their income, expenditure, working capital balances and reserves. In addressing this risk, the Council will need to utilise the information provided by schools more effectively.</p>
<p><b>NEW ACCOUNTING STANDARDS</b></p>	<p>The <i>Code of practice for Local Authority Accounting 2014/15</i> includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control, which should be used to determine whether entities and joint arrangements should be consolidated within the Council’s financial statements.</p> <p>The Council will need to review its investments in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns.</p> <p>In addition, the new standards mean that the Council needs to carry out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets. This may result in a material value of school buildings being brought on the Balance Sheet, including restatement of comparatives by way of prior period adjustments.</p>	<p>Completeness of income and expenditure and balances for entities requiring consolidation; and completeness of Property, Plant and Equipment for schools.</p>	<p>We will review the Council’s justification for its accounting treatment of all material investments in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied.</p> <p>We will also review the Council’s justification for consolidating or not consolidating schools’ non-current assets, including supporting property agreements held by schools.</p>


USE OF RESOURCES SIGNIFICANT RISKS		
RISK	RISK DETAIL	AUDIT RESPONSE
<b>FINANCIAL RESILIENCE</b>	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes and uncertainty about future costs associated with Children's Social Care Services in Slough, will have a significant impact on the financial resilience of the Council in the medium term.</p> <p>For 2014/15 the Council is currently reporting (as at month 9) a forecast overspend of £0.69 million and just under two thirds of the £12.5 million of identified savings plans are on track to be delivered.</p> <p>The Medium term Financial Strategy (MTFS) for the period 2015 to 2019 includes a savings requirement of £36.28 million (for the four year period) for which savings of £27.54 million have been identified. Achieving this scale of savings will continue to present a significant financial risk for the Council.</p>	<p>We will review the Council's MTFS to assess the reasonableness of assumptions and how the Council is addressing financial pressures.</p>
<b>CHILDREN'S SOCIAL CARE SERVICES</b>	<p>Our 2013/14 value for money conclusion was qualified because of significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, and the Inspectors' judgement that insufficient progress had been made in the inspection of arrangements for safeguarding children completed in 2013.</p> <p>The Council is working with the Department for Education to establish a new model for the delivery of certain Children's Social Care Services. The model has not yet been determined but is expected to remove specified services from Slough's direct control. The new model is expected to be fully implemented in 2015. There is a risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2014/15 when it retained direct control for these services.</p> <p>In the absence of sufficient evidence of improvement there is a risk we may qualify our value for money conclusion.</p>	<p>We will gain an understanding of any action taken by the Council during 2014/15 to address Ofsted's recommendations and seek evidence of improved processes and outcomes.</p>
<b>CONTRACT MANAGEMENT</b>	<p>Internal Audit's review of contract management in the current year and prior years have resulted in several 'red' and 'amber/red' reports and a number of high priority recommendations. Identified weaknesses in the current year have included inadequate processes for defining and agreeing key performance indicators (KPIs) with contractors, the absence of clearly documented validation procedures, no KPI reports in the year for one of the Council's major contracts and a lack of validation and transparency over the cost base for another significant contract. There is a risk the Council is not securing value for money from its contract management arrangements.</p>	<p>We will review the results of further contract management reviews carried out by Internal Audit and progress being made in implementing (Internal Audit's) recommendations.</p>
<b>WELLBEING BOARD</b>	<p>The Slough Wellbeing Board (the Board) is in its second year of full operation and the Board's objectives are being taken forward through Priority Delivery Groups (PDGs) and various sub-groups, which includes a Health PDG. The new Care Act (2014) will come into force on 1 April 2015, with the availability of funding through the Better Care Fund (BCF). The Council should be developing appropriate governance arrangements for its BCF pooled budgets with clinical commissioning groups (CCGs) to support the integration and transformation of health and social care services.</p>	<p>We will review progress being made by the Slough Wellbeing Board against its objectives and the development of governance arrangements for pooled budgets with CCGs under the BCF.</p>

# AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
<b>FINANCIAL STATEMENTS</b>	
Review of internal controls	March - June 2015
Final audit visit	July - September 2015
Audit report covering: <ul style="list-style-type: none"> <li>• 'True and fair' opinion on the financial statements</li> <li>• Information in the Statement of Accounts being consistent with auditor's knowledge</li> <li>• Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor's knowledge</li> </ul>	Clearance meeting to be held early September 2015  By 30 September 2015
Opinion on the Whole of Government Accounts return.	By 7 October 2015
<b>USE OF RESOURCES</b>	
Review of economy, efficiency and effectiveness	March - August 2015
Value for money conclusion	By 30 September 2015
<b>GRANTS</b>	
Audit of grant claims and returns	August to November 2015
<b>REPORTING</b>	
Report on any significant deficiencies in control (if required)	June 2015
Final report to those charged with governance	September 2015
Annual Audit Letter	October 2015

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



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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO LLP is separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright © 2015 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

