External Audit Plan

Year ending 31 March 2019

Slough Borough Council

January 2019

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Slough Borough Council Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Slough Borough Council. We draw your attention to both of these documents on the PSAA website. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Corporate Governance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Corporate Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of its subsidiary undertaking, James Elliman Homes Limited. The Authority has a 50% interest in Slough Urban Renewal, a Limited Liability Partnership. The Council will need to consider whether the entity will be consolidated into Group Accounts in 2018/19.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Income from Other Fees and Charges, Grants, and Contracts • Valuation of Land and Buildings • Valuation of Investment Property • Valuation of the Pension Fund net liability • Valuation and Accounting for Lender Option Borrower Option (LOBO) loans • Property, Plant and Equipment - Incomplete or inaccurate financial information transferred to the general ledger • Group Accounts • Presentation and disclosure – Financial Statement Level Risk • Accounting for the Authority's Private Finance Initiatives (PFI) Scheme We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Introduction & headlines

Materiality	We have determined planning materiality to be £5.982m (PY £6.800m) for the group and £5.980m (PY £6.800m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.299m (PY £0.136m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Children's Social Care services – In the prior year, Ofsted identified weaknesses in Children's Social Care services, resulting in a modified opinion on the use of resources in the year ended 31 March 2018; • Principles and values of sound governance and internal control – In the prior year, the Authority's auditor identified significant weaknesses in arrangements to prepare the financial statements to support informed decision making, resulting in a modified opinion on the use of resources for the year ended 31 March 2018; and • Financial sustainability of the Council (Medium Term Financial Strategy) - Slough Borough Council currently has a budget gap of £1.291m over four years to 2022/23. The Council has set a balanced budget for 2019/20 to 2021/22. Further details are set out on page 16.
Audit logistics	Our interim visit will take place in March 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £98,193 (PY: Scale fee £127,523; final fee TBC) for the Authority. This is subject to the Authority meeting our requirements set out on page 19. Should any variation to this fee be required, this will require prior approval with the Authority and PSAA.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Slough Borough Council, as at December 2018 there is a projected budget gap of £1.657m for the financial year 2019/20.
- At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Internal Factors

New audit methodology

- We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit.
- It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.
- We can ensure that our resources and testing are best directed to address the risks we identify in an effective way.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and group and will review related disclosures in the financial statements.
- We will review the Council's progress against previously agreed recommendations within the 2017/18 Audit Findings Report as part of our work.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.
- We have invited members of your Finance Team to our Local Government Chief Accountant Workshop, due to take place in February, with dates available in Birmingham and London.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Slough Borough Council	Yes	Audit of the financial information of the component using component materiality	• Risks are detailed on page 3.	Full scope UK statutory audit performed by Grant Thornton UK LLP
James Elliman Homes Limited	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	• Risks are detailed on page 3.	Full scope UK statutory audit performed by component auditor The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.
Slough Urban Renewal LLP	To be confirmed	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	• Risks are detailed on page 3.	Full scope UK statutory audit performed by component auditor The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.

Group audit scope and risk assessment (cont)

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Development Initiative for Slough Housing Company Ltd	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP.
Herschel Homes Ltd	No (Dormant)	Analytical procedures at group level	None (Dormant)	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- The Authority is required to prepare group financial statements that consolidate the financial information of its wholly owned subsidiary undertaking, James Elliman Homes Limited.
- The Authority has a 50% interest in Slough Urban Renewal, a Limited Liability Partnership. The Council will need to consider whether the entity will be consolidated into Group Accounts in 2018/19.
- The Council has a wholly owned subsidiary, Development Initiative for Slough Housing Company Ltd
- During 2017/18 the Council established Herschel Homes Limited which is currently dormant.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Income from Other Fees and Charges, Grants, and Contracts	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Slough Borough Council, we have concluded that the greatest risk of material misstatement relates to Other Fees and Charges income. We have therefore identified the occurrence and accuracy of Other Fees and Charges, Grants, and Contract income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. We have rebutted this presumed risk for the other revenue streams of the group and Authority because: • Other income streams are primarily derived from formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	We will: • evaluate the group's accounting policy for recognition of income from Other Fees and Charges, Grants, and Contracts for appropriateness; • gain an understanding of the Authority's system for accounting for income from Other Fees and Charges, Grants, and Contracts and evaluate the design of the associated controls; • agree, on a sample basis, amounts recognised as income from Other Fees and Charges, Grants and Contracts in the financial statements to supporting documents.
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment property (Annual revaluation)	The group revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2019. We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of land and buildings (Rolling revaluation)	The group revalues its land and buildings on a rolling five-yearly basis.. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agree any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Berkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation and accounting for Lender Option Borrower Option (LOBO) loans	LOBO loans are complex with terms that can be non standard, including inverse floating interest rates. Management need to consider the terms of the loan agreements of these loans and make judgements as to the appropriate accounting treatment. Last year, clarification was issued by CIPFA in relation to the accounting for LOBO loans. The Authority holds LOBO loans (PY: fair value of £13m in 2017/18) and has made a critical judgement regarding the accounting treatment and valuation of these loans during the year. We therefore identified the valuation and accounting for these LOBO loans as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • assess management's processes and assumptions for identifying critical judgements; • gain an understanding of the processes and the controls put in place by management to ensure that the loans were not materially misstated and evaluate the design of the associated controls; • evaluate the competence, capabilities and objectivity of management experts used in the valuation of the loans; • discuss with management the basis on which the valuation was carried out, including advice received from treasury management advisers; • evaluate and challenge the reasonableness of the critical judgements and significant assumptions used by management and their expert in valuing and accounting for the loans.
Property Plant and Equipment - Incomplete or inaccurate financial information transferred to the general ledger	In January 2019, the Authority implemented an opening balances exercise on the Property, Plant and Equipment balances for the 2018/19 financial year. When implementing this exercise, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of any data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of revised financial information to the general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • complete an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the general ledger system; and • map the closing balances from the 2017/18 general ledger to the opening balance position in the new ledger for 2018/19 to ensure accuracy and completeness of the financial information.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of its wholly owned subsidiary undertaking, James Elliman Homes Limited. The Authority has a 50% interest in Slough Urban Renewal, a Limited Liability Partnership. Activity increased significantly in 2017/18; the Council will need to consider whether the entity will be consolidated into Group Accounts in 2018/19. The Council has a wholly owned subsidiary, Development Initiative for Slough Housing Company Ltd. During 2017/18 the Council established Herschel Homes Limited which is currently dormant. In 2017/18 Slough Urban Renewal was not consolidated due to the quantitative and qualitative aspects were not considered to be material by the Council. The Council will need to consider whether the subsidiary should be consolidated in the 2018/19 financial statements. The consolidation of the subsidiary may give rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered. We therefore identified the accounting transactions associated with the consolidation of Slough Urban Renewal as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • review the key agreements to gain an understanding of the agreements put in place on the establishment of the company; • discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • review the Group structure of the Council; • obtain an copy of the Group materiality assessment to be prepared by the Council; • review the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Private Finance Initiatives (PFI) Scheme	The Council entered into a PFI contract for the design, build and operation of three schools in 2006/07. The PFI assets are recognised as Property, Plant and Equipment within the Authority's balance sheet. Accounting for PFI is complex and the transactions are significant. In addition, the monitoring of the contract is a key requirement for the Authority. There is a risk that Property, Plant and Equipment may be misstated due to improper valuations and accounting of PFI schemes in year. We therefore identified the accounting transactions associated with the PFI model as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • review the Authority's PFI model and assumptions therein to inform our audit approach; • agree the balances in the financial statements to these models; • review the basis of the Authority's accounting treatment and valuation for the PFI schemes; • discuss with key group personnel, the underlying substance of the transactions and the judgements made.
Presentation and Disclosure – Financial Statement Level Risk	In 2017/18 a significant number of weaknesses and misstatements were identified in respect of the group's arrangements for preparing the financial statements and working papers. There is a financial statement level risk that the financial statements may be misstated due to weaknesses identified. We therefore identified the presentation and disclosure of the financial statements as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • consider the Authority's arrangements for preparing the financial statements and working papers; • discuss with key group personnel, the underlying substance of the transactions and judgements made; • critically assess the financial statements in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • map the closing balances from the 2017/18 general ledger to the opening balance positions in the new ledger for 2018/19 to ensure accuracy and completeness of the financial information; • consider the action plan presented to Audit Committee and consider progress made by Officers against this plan in the preparation of the 2018-19 financial statements.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

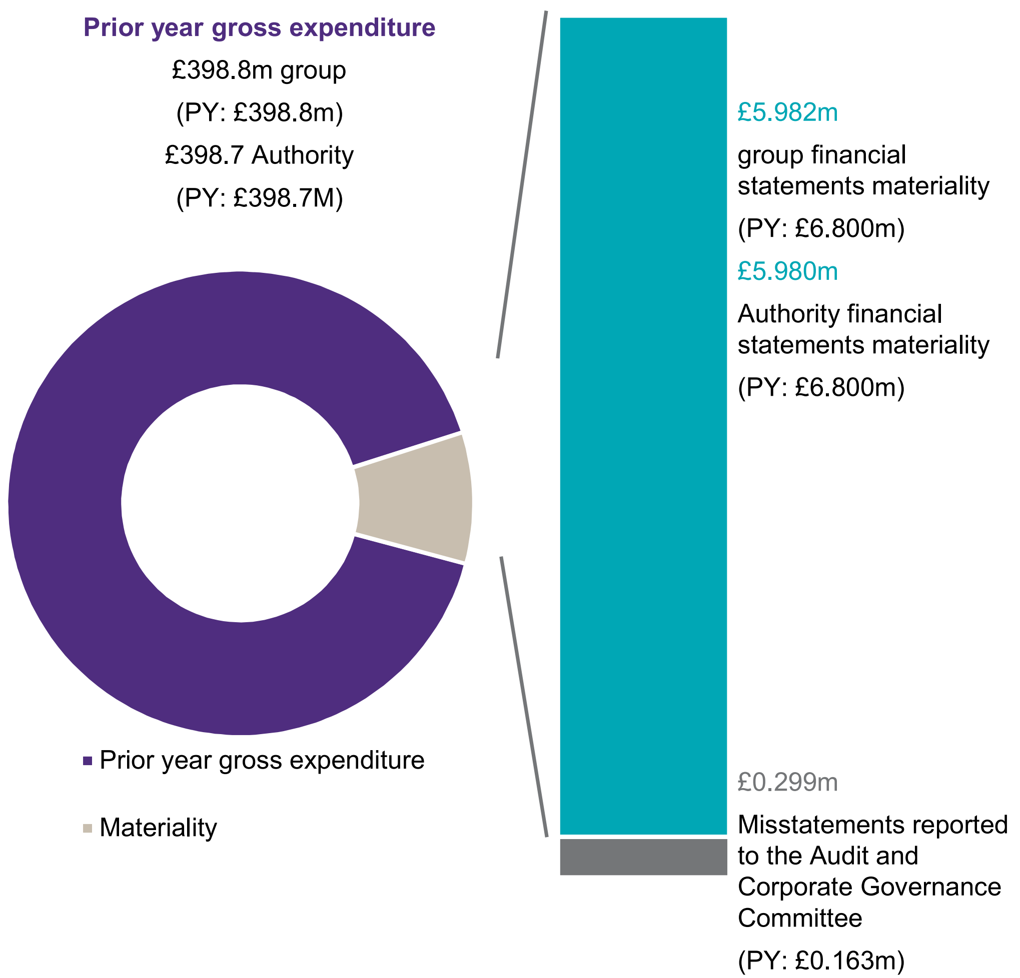
Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. Materiality at the planning stage of our audit is £5.982m (PY £6.800m) for the group and £5.980m (PY £6.800m) for the Authority which equates to 1.5% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 2% of the disclosure note for senior officer remuneration. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Corporate Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Corporate Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ Authority, was matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and e propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.299m (PY £0.163m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Corporate Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

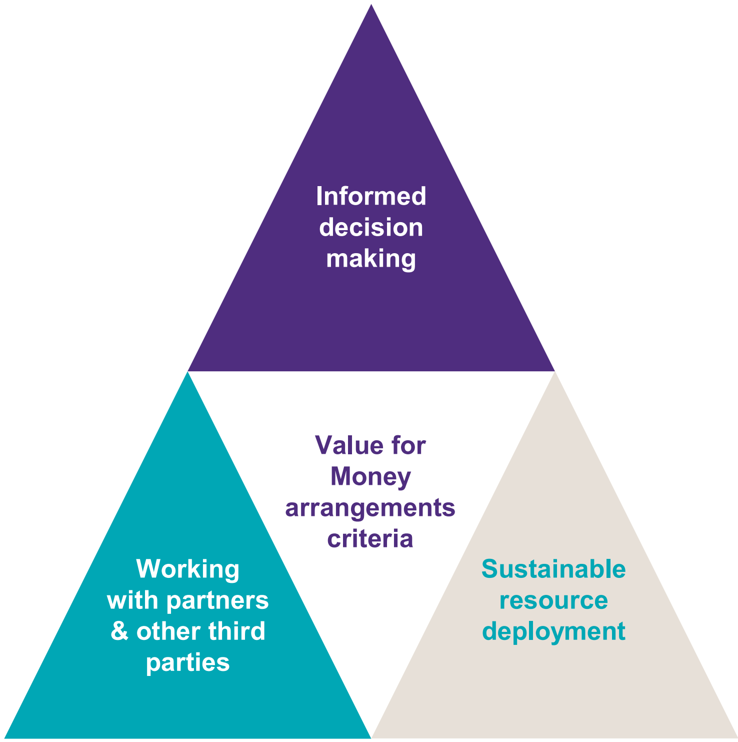
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Financial Sustainability of the Council - Medium Term Financial Strategy

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Slough Borough Council currently has a budget gap of £1.291m over four years to 2022/23. The Council has set a balanced budget for 2019/20 to 2021/22.

In the short term, the Authority has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging. The Authority expects an estimated £9m reduction in central funding per annum to 2024/25 which further enforces the need to identify alternative methods of achieving the Authority's financial position for the future.

We will review the Authority's arrangements to prepare robust savings plans and how these have been challenged and consider the plans to identify further savings to address the future funding gap.

We will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Strategy, the delivery of the 2018/19 budget, and the action taken when plans are not being delivered.

Value for Money arrangements

Significant VFM risks (continued)

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Principles and values of sound governance and internal control

In the prior year, the Authority's auditor identified significant weaknesses in arrangements to prepare the financial statements to support informed decision making, resulting in a modified opinion on the use of resources for the year ended 31 March 2018.

We will consider the Council's system of internal control and governance procedures and its progress in addressing the previously identified recommendations.

Children's Social Care services

In the prior year, Ofsted identified weaknesses in Children's Social Care services, resulting in a modified opinion on the use of resources for the year ended 31 March 2018.

We will consider the Council's progress against the previously identified recommendations.

We will consider actions taken by the Authority to address the recommendations raised by Ofsted.

We will consider the Authority's processes for monitoring the progress against recommendation raised.

We will consider the results of any follow up inspections by external bodies.

Audit logistics, team & fees

- Planning and risk assessment
- **Audit committee** March 2019 — Audit Plan
- **Interim audit** March 2019
- **Audit committee** TBC — Interim Progress Report
- **Year end audit** June and July 2019
- **Audit committee** July 2019 — Audit Findings Report
- Audit opinion
- **Audit committee** September 2019 — Annual Audit Letter

Julie Masci, Engagement Lead

Julie leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Sophie Morgan-Bower, Audit Manager

Sophie plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Audit fees

The planned audit fees are £98,193 (PY: Scale fee £127,523; final fee TBC) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £42,490 of fees are planned for the Housing Benefit certification work, which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Where additional audit work is required to address risks relating to the application of changes to International Financial Reporting Standard (IFRS) 9 – Financial Instruments and changes to the Authority's recognition and accounting treatment of financial assets and/or liabilities, and the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and the Authority's recognition and accounting treatment of income from contracts, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 18). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, in writing our 2018-19 Audit Plan we need to bring a specific issue to those charged with governance attention. Gray's Inn Trading (GIT) Ltd is a group of companies based in the Slough area. A separate special purpose vehicle, Ground Rent Estates (GRE) 5 Ltd, held by GIT Ltd, was acquired by Slough Borough Council on 8 March 2018. At the time of purchase, Grant Thornton were responsible for the audit and tax services for GIT Ltd. Audit and tax compliance services had been provided by Grant Thornton during the 2016-17 financial year, including tax compliance work which commenced in January 2018, nearly three months prior to the 8 March 2018 acquisition date. In addition to the tax compliance work, GT provided tax advice relating to the GRE 5 Ltd company transfer. No work was performed in respect of the 2017-18 year - the firm proposed to continue as the auditor of GRE5 Ltd for 2017/18 but, in view of the acquisition by the Council of GRE5 Ltd, the firm ceased its tax and accounts preparation services for audit year 2017/18. There is therefore no ongoing threat to independence as the firm will not be undertaking accounts preparation or tax work in future years.

For the 2016-17 audit, all fees relating to the audit and tax computation work for the group (including that for GRE 5 Ltd) have been and will continue to be billed to the GIT Group. No fees were billed to either GRE 5 Ltd or Slough Borough Council. The work is inconsequential to the Council (and is not consolidated within the financial statements of the Council) and Grant Thornton had substantially completed, and billed, the majority of the work before Slough Borough Council acquired GRE 5 Ltd in March 2018. The only element of work outstanding at the date of acquisition was the final sign off procedures, including the filing of year end accounts.

No members of the Slough Borough Council audit team had any involvement with the GIT Ltd or GRE 5 Ltd audit and tax services.

Following the subsequent discussions with our Head of Ethics, it has been agreed that there is no ongoing conflict of interest and there is no impact upon our independence and objectivity of the audit of either the Council or the company as the firm ceased its tax and accounts preparation services for the audit year 2017-18. There is therefore no ongoing threat to independence as Grant Thornton will not be undertaking accounts preparation or tax work in 2018-19 or in future years. Grant Thornton has fully reported the circumstances to Slough Borough Council and consulted with PSAA on 12 July 2018. PSAA has confirmed that they support this conclusion.

We are reporting this matter to those charged with governance as required under the Financial Reporting Council Ethical Standard to ensure that they are fully appraised of the situation. We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence & non-audit services

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit	42,940	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £43k in comparison to the total fee for the audit of £98k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights	12,500	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Independence & non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the Authority.

Service	Date of service	Fees £	Would the service have been prohibited if we had been auditor?	Has the outcome of the service been audited or reviewed by another firm?	Commentary
Services in respect of Ground Rent and Estates (GRE 5 Ltd)	September 2017	N/a – fees billed to the GIT group, with no fees billed to either GRE5 Ltd or Slough Borough Council as disclosed on page 20	Yes	No	See page 20 for commentary

We do not believe that the previous services detailed above will impact our independence as auditors

Appendices

A. Audit Approach

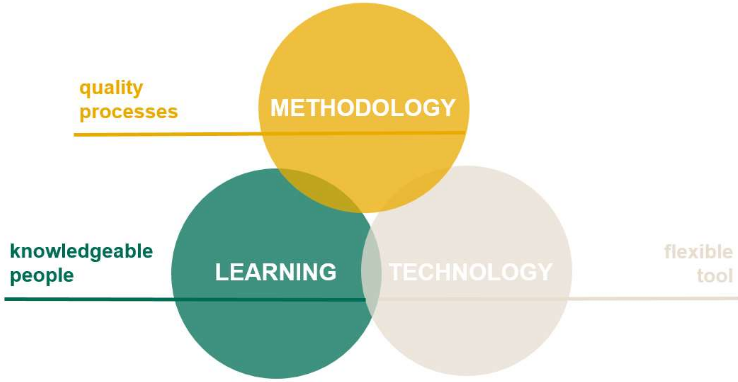
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Grant Thornton

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