



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Tuesday 22 March 2011, 7.30 pm**

**Council Chamber, Fourth Floor, Easthampstead House, Bracknell**

### **To: The Governance & Audit Committee**

Councillor Ward (Chairman), Councillor Thompson (Vice-Chairman), Councillors Beadsley, Blatchford, Edger, Leake, McCracken, Mrs McCracken and Mr G S Anderson

### **cc: Substitute Members of the Committee**

Councillors Mrs Ballin, Mrs Beadsley, Birch, Harrison, Mrs Hayes, Mrs Shillcock and Worrall

ALISON SANDERS  
Director of Corporate Services

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Telephone: 01344 352281  
Email: [emma.silverton@bracknell-forest.gov.uk](mailto:emma.silverton@bracknell-forest.gov.uk)  
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**Governance & Audit Committee  
Tuesday 22 March 2011, 7.30 pm  
Council Chamber, Fourth Floor, Easthampstead House,  
Bracknell**

**AGENDA**

Page No

1. **Apologies for Absence**

To receive apologies for absence and to note the attendance of any substitute members.

2. **Declarations of Interest**

To receive any declarations of personal or prejudicial interests, and the nature of that interest, in respect of any matter to be considered at this meeting.

3. **Minutes - 25 January 2011**

To approve as a correct record the minutes of the meetings of the Committee held on 25 January 2011.

1 - 4

4. **Urgent Items of Business**

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

5. **External Audit Matters**

To receive the Bracknell Forest Council Audit Plan 2010/11, the Annual Audit Fee 2011/12 Letter and the Audit Commission publication 'A New Approach to Value for Money Audit' which will be presented by Phil Sharman, District Auditor.

5 - 44

6. **Certification of Claims and Returns Annual Report: Housing Benefit and Council Tax Subsidy and Housing Benefit Internal Audit Report 2010/11**

To receive a report which provides the Committee with a commentary on the findings of the 2009/10 Audit of the Housing and Council Tax Benefit Subsidy. In addition the report appraises members of the second internal audit report of the Housing and Council tax benefit system.

45 - 94

7. **Internal Audit Plan 2011-12**

To receive a report which sets out the underlying principles applied in the Internal Audit planning process and which seeks the Committee's approval of the Internal Audit Plan for 2011/12.

95 - 124

8. **Town Centre Land Disposals** 125 - 126  
To consider a report which proposes an amendment to the Constitution to permit the Bracknell Town Centre Regeneration Committee to approve the disposal of land required in connection with the re-development of Bracknell Town Centre.
9. **Amendments to the Council's Constitution** 127 - 130  
To receive a report which seeks approval of amendments to the Council's Constitution which are proposed as a result of the recent introduction of the Regulatory Enforcement and Sanctions Act 2008 and the requirements of the Council to become the primary authority under the act.
10. **Anti-Money Laundering** 131 - 136  
To receive a report which seeks approval of the Councils Anti Money Laundering Policy and to agree steps to implement the policy.
11. **Accounting Policies** 137 - 158  
To receive a report which seeks approval of the Councils Accounting Policies which have been revised due to significant changes to the based on International Financial Reporting Standards (IFRS). The revised Accounting Policies will be applied to the production of the Statement of Accounts 2010/11.

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**GOVERNANCE & AUDIT COMMITTEE  
25 JANUARY 2011  
7.30 - 9.02 PM**

**Present:**

Councillors Ward (Chairman), Thompson (Vice-Chairman), Blatchford, Edger, Leake, McCracken and Mrs McCracken

**Independent Members:**

Gordon Anderson

**Also Present:**

Councillor Worrall

**Apologies for absence were received from:**

Councillor Beadsley

**24. Declarations of Interest**

Councillor Thompson declared a personal interest in item 6, Internal Audit 6 Month Report as a Governor of Wildmoor Heath Primary School.

**25. Minutes - 23 November 2010**

**RESOLVED** that the minutes of the meeting held on 23 November 2010 be approved as a correct record and signed by the Chairman.

**26. Annual Audit Letter**

The Committee received apologies from Phil Sharman, District Auditor who was unable to attend the meeting. The Catherine Morganti presented the Audit Commission's Annual Audit Letter 2009/10 to the Governance and Audit Committee. The Annual Audit Letter focused on the Council's financial statements and arrangements to achieve value for money in the use of resources.

An unqualified opinion on the Council's 2009/10 financial statements had been given on 28 September 2010. It was noted that whilst improvements had been made in fixed asset accounting further action was required to address remaining weaknesses over valuation of assets.

The Audit Commission felt that the Council had made good progress on preparation for reporting under the International Financial Reporting Standards. The Committee noted that officers at the Council felt that they had sufficient skills and capacity within the existing team to meet the additional demands associated with reporting under IFRS for the first time in 2010/11.

An unqualified opinion on whether the Council was managing and using its money, time and people to deliver value for money had been given on 28 September 2010 with all the assessment criteria having been adequately met. It was noted that the

Audit Commission had recommended that the Council should consider opportunities for improvement identified in the use of resources review.

It was reported that a new approach to local value for money work would be introduced by the Audit Commission in 2010/11. An update on areas of focus for the Council would be brought to the Committee's next meeting.

The Committee noted that officers were waiting for the results of the Hutton enquiry and the results of the triennial actuarial valuation. It was possible that increased contributions would be required from the Council to ensure the scheme maintained an appropriate long-run funding level. Although the evaluation was triennial the year deficit could be spread over a longer period.

The Audit Manager confirmed that the 2009/10 Audit was now complete and thanked officers for their co-operation throughout the audit process.

**RESOLVED** that the Annual Audit Letter 2009/10 be noted.

**RECOMMENDED** to the Corporate Management Team that when service plans for the coming year were developed regard be paid to the recommendations set out in the Annual Audit Letter 2009/10.

#### 27. **Internal Audit 6 month report**

The Head of Audit & Risk Management presented the Internal Audit report which provided a summary of Internal Audit activity during the period April to December 2010.

It was reported that 46 audit reports had been issued in draft or finalised since the Annual Internal Audit Plan for 2010/11 was approved by the Governance and Audit Committee. Of the reports issued, limited assurance options had been given for 2 audits. The Committee noted that the issues raised in the compliance with new PCI Data Security Standards audit had now been addressed. The issues raised in the audit of Wildmoor Health Primary school had been agreed with the Head Teacher, would be addressed at the next school governors meeting.

The Committee expressed concern that only 27 of 46 client satisfaction questionnaires had been returned. The issue had been noted by the Committee in previous years and had not been resolved despite having been raised at both The Corporate Management Team meeting and Departmental Management Team meetings. It was noted that the questionnaire formed an important part of monitoring contractor performance. It was agreed that the issue would be brought to the attention of the Chief Executive and those who had not returned questionnaires would be contacted.

Concern was expressed by the Committee about overspend on Reactive Schools Maintenance in 2009/10. The overspend of £196, 000 was a serious shortcoming in the management of expenditure. It was reported that the lapse in process had now been addressed by officers with a number of procedures, including monthly budget limits and an alternative approach to the previous insurance based Service Level Agreement, to prevent future occurrences. Reviews would be regularly included in the Audit Plan.

**RESOLVED** that the Internal Audit Assurance Report, April – December 2010 be noted.

28. **Committee Procedure Rules**

Ann Moore, Head of Democratic and Registration Services presented the report which sought the Committee's approval to a set of Committee Procedure Rules for recommendation to the Council for Inclusion in the Council's constitution.

Councillor David Worrall, Chairman of the Planning and Highways Committee had worked with the Head of Democratic and Registration Services to develop the rules and reiterated that the Committee Procedure Rules had been written as a stand alone document to reflect the differences between the way business was conducted at Council and at committees, and to clarify those rules which were specific to committees and sub-committees.

The Committee were advised that the rules for sub-committees applied to the Council's panels and advisory committees. They did not apply to the Council's forums as they were discussion meetings rather than formal committee meetings, however there was no reason for the Committee Procedure Rules not to be used as a guide.

It was noted that rules for public speaking had not been specified in the Committee Procedure Rules as different committees had different procedures due to the differing nature of the business being undertaken.

**RECOMMENDED** to Council that the Committee Procedure Rules be included in the Council's constitution and that any consequential changes to the constitution be made.

29. **Annual Governance Statement Preparation**

The Borough Solicitor advised the Committee that the Council was required to produce an Annual Governance Statement to review annual governance processes, and an Action Plan to accompany it.

He wished to invite the Committee to consider nominating one of their group to join the Annual Governance Working Group as it had been helpful to have Member input into the process during the previous year's preparation.

**RESOLVED** that Councillor Cliff Thompson be appointed to the Annual Governance Working Group.

30. **Code of Corporate Governance**

The Committee received and considered the report which provided details of proposed amendments to the Council's Code of Corporate Governance.

The Committee were advised that the Code had been reviewed at a meeting of the Officer Governance Working Group. Annexe A to the report showed amendments proposed by the Working Group.

**RESOLVED** that the Council's Code of Corporate Governance, as show in Annexe A of the report, be amended.

31. **Treasury Management Report**

Calvin Orr, Chief Technical Accountant, presented the Treasury Management Report for review by the Committee. The report outlined the Council's prudential indicators for 2011/12-2013/14 and the expected treasury operations for the period.

The Council was required to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable.

It was noted that the summary capital expenditure projections in the report would be adjusted to reflect the grant settlement from Government. Any unsupported borrowing would use standard categories of asset life for the calculation of repayment. The Committee noted that the standard asset life categories were based on professional recommendations.

The Treasury Management Strategy Statement covered the Council's debt and investment procedures, estimates on future debt limits, expected movement in interest rates, borrowing and investment strategies and treasury performance indicators.

It was noted that Bracknell Forest Council was debt free and did not expect to borrow for 2 years, therefore the strategy focused on investment and the risks associated with this. The strategy set out the maximum investment and length of investment in accordance with stringent investment criteria.

The Committee received a paper which gave details of a potential change to the Treasury Management Strategy. It was suggested that part nationalised UK banks with a minimum short term rating F1, long term rating A and support rating 3 (or equivalents) were added to the Counterparty Criteria. The addition would allow the use of Lloyds and RBS up to a maximum period of 1 year who offered higher interest rates.

The Committee were advised that no investment was without risk however the stringent criteria used to identify investment opportunities minimised risk.

**RESOLVED** that the Treasury Management Strategy be amended to include additional criteria to Counterparty Criteria.

### 32. **International Financial Reporting Standards**

The Borough Treasurer Designate, gave an update on the progress made towards the implementation of International Financial Reporting Standards.

It was reported that good progress had been made towards implementation in accordance with the Council's timetable. It was noted that proposed changes to the accounting policies would be brought to the next meeting of the Committee.

**RESOLVED** that the progress made towards the implementation of International Financial Reporting Standards be noted.

**CHAIRMAN**



## GOVERNANCE AND AUDIT COMMITTEE 22 MARCH 2010

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### EXTERNAL AUDIT MATTERS Borough Treasurer

#### 1 PURPOSE OF DECISION

- 1.1 The District Auditor has requested that several documents forming part of the 2010/11 and 2011/12 audits be considered by the Committee.
- 1.2 The District Auditor will attend the meeting of the Committee and will present and answer questions on these documents.

#### 2 RECOMMENDATION(S)

- 2.1 **That the Governance and Audit Committee note the content of the Audit Plan 2010/11, the Annual Audit Fee 2011/12 Letter and the Audit Commission publication 'A new approach to value for money audit'.**

#### 3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

##### Borough Solicitor

- 3.1 Nothing to add to the report

##### Borough Treasurer

- 3.2 Nothing to add to the report

##### Equalities Impact Assessment

- 3.3 There are no equalities issues arising from this report.

##### Strategic Risk Management Issues

- 3.4 The Audit Plan 2010/11 and the Annual Audit Fee Letter 2011/12 take account of the District Auditor's assessment of the risks facing the Council. Some of these, such as the economic climate and public spending pressures, are also included in the Council's Strategic Risk Register.

#### 4 SUPPORTING INFORMATION

- 4.1 Attached to this summary report are three documents that the District Auditor has requested the Committee consider:
  - Audit Plan 2010/11
  - Annual Audit Fee 2011/12 Letter

- A new approach to value for money audit, published by the Audit Commission

4.2 A summary of the audit fees is set out in the following table:

<b>Audit Area</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Statutory audit fee	£242,100	£256,600	£230,940
IFRS and VFM rebate	£0	(£22,200)	£0
Certification of grant claims and returns	£74,000	£74,000	£60,000
<b>Total</b>	<b>£316,100</b>	<b>£308,400</b>	<b>£290,940</b>

4.3 The budget for external audit fees is £316,570 for 2010/11 and £298,570 for 2011/12. The statutory audit fee and the charge for the certification of grant claims and returns are therefore within budget in both years.

4.4 In addition, the budget also makes provision for charges associated with the National Fraud Initiative (approximately £2,000) and any additional costs arising from investigations undertaken by external audit in response to questions asked or objections made by local electors. Our experience to date is that the cost associated with questions or objections is minimal and if this trend continues there should be a small underspend to report on the external audit fees budget in both 2010/11 and 2011/12.

#### Background Papers

None

#### Contact for further information

Alan Nash: 01344 352180

[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

#### Doc. Ref

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# Audit plan

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**Bracknell Forest Council**

**Audit 2010/11**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

# Contents

<b>Introduction</b> .....	<b>2</b>
<b>Responsibilities</b> .....	<b>3</b>
<b>Fee for the audit</b> .....	<b>4</b>
Specific actions the Council could take to reduce its audit fees .....	5
<b>Auditors report on the financial statements</b> .....	<b>6</b>
Materiality .....	6
Identifying opinion audit risks .....	6
<b>Identification of specific risks</b> .....	<b>7</b>
<b>Testing strategy</b> .....	<b>9</b>
Testing strategy .....	9
IT Risk assessment .....	9
International Standards of Auditing .....	10
<b>Value for money conclusion</b> .....	<b>12</b>
<b>Key milestones and deadlines</b> .....	<b>14</b>
<b>The audit team</b> .....	<b>15</b>
Independence and objectivity .....	15
Meetings .....	15
Quality of service .....	16
Planned outputs .....	16
<b>Appendix 1 Basis for fee</b> .....	<b>17</b>
Assumptions .....	17
<b>Appendix 2 Independence and objectivity</b> .....	<b>18</b>
<b>Appendix 3 Working together</b> .....	<b>20</b>
Meetings .....	20
Sustainability .....	20
<b>Appendix 4 Glossary</b> .....	<b>21</b>

# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

2 The audit planning process for 2010/11, including the risk assessment will continue as the year progresses and I will keep the information and fees in this plan under review and update it as necessary.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**3** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**4** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**5** Should you wish to discuss any element of your responsibilities please let me know.

## Fee for the audit

### **The fee for the audit is £256,600, as indicated in my letter of 9 March 2010.**

6 The Audit Commission scale fee for a unitary council with equivalent gross spend to Bracknell Forest Council is £229,220. The fee proposed for 2010/11 is 12 per cent above the scale fee, due substantially to the implementation of the new revenues and benefits system, and is within the normal level of variation specified by the Commission.

7 Please note that the audit fee above is quoted on a gross basis and does not include the rebates detailed below which will be processed as separate adjustments by the Commission. After taking account of rebates which total £22,200 the net fee payable for 2010/11 is £234,400. This compares to an audit fee of £242,100 for 2009/10.

8 The published fee scale for 2010/11 included a 6 per cent increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies were facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You therefore received a 6 per cent rebate from the Audit Commission in May 2010, amounting to £14,177.

9 The Commission wrote to all audited bodies, on 9 August 2010, about its proposed new arrangements for local value for money audit work. The impact of this change for 2010/11 has now been considered as part of the December 2010 consultation on its work programme and fee scales for 2011/12. In addition to the IFRS rebate above the Commission has decided to rebate a further 3.5 per cent of fees in 2010/11, amounting to £8,023, reflecting the change in the auditors approach to VFM.

10 Changes in International Auditing Standards (ISAs) will increase the audit procedures I need to carry out. In line with the Audit Commission's fee proposals for 2010/11, and subject to the planning assumptions below, I will absorb the cost of these additional requirements within the quoted fee.



**11** In setting the fee, I have assumed that:

- the level of risk in relation to the financial statements audit is consistent with that for 2009/10;
- good quality working papers will be supplied to support the restatement of 2009/010 balances to comply with International Financial Reporting Standards (IFRS);
- good quality, accurate working papers are available at the start of the financial statements audit; and
- your internal audit team undertakes appropriate work on all material systems and this is available for our review by March 2011

**12** Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Borough Treasurer and I will issue supplements to the plan to record any revisions to my assessment of risks and the impact on the fee.

**13** Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions the Council could take to reduce its audit fees**

**14** The Audit Commission requires its auditors to let audited bodies know what they can do to reduce audit fees. In setting the fee for 2010/11 I have made provision for audit work associated with the implementation of your new revenues and benefits system and first time reporting under IFRS. Ensuring effective introduction of these changes will enable fees to be reduced in 2011/12.

**15** I will continue to work with your staff to identify any actions that could be taken to reduce fees and/ or limit the requirement for additional fees.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**16** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**17** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**18** As part of my audit risk identification process, I need to fully understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering your financial performance;
- assessing internal control - including reviewing the overall control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within your information systems.

# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below together with my proposed audit response.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>Transition to IFRS</b></p> <p>The re-statement of the 2009/10 accounts and the preparation of 2010/11 accounts in accordance with IFRS is a significant project for the Council.</p> <p>You have made good progress in relation to IFRS implementation by drawing up accounting policies and producing restated accounts. You have a plan in place to ensure that you will produce IFRS compliant accounts by the statutory deadline of 30 June.</p>	<p>I will continue to consider the arrangements in place to manage the transition process and continue to monitor progress.</p> <p>My team has already carried out early testing on the restated opening balances in the financial statements. I have reviewed the skeleton financial statements and have made an early assessment of compliance with the presentation and disclosure requirements set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>I will provide you with feedback which can be used to inform the closedown process.</p> <p>My team and I will continue to liaise with officers and, without compromising my independence, provide an early audit view on any complex accounting areas such as service, concessions, leases and property, plant and equipment.</p>
<p><b>Valuation of fixed assets</b></p> <p>In my 2009/10 Annual Governance Report I recommended that the Council needs to ensure that values for assets properly reflect the physical size, condition, usage and estimated life.</p>	<p>I will review your progress in developing your arrangements for asset valuations in 2010/11. In particular I will assess whether the proposed approach properly reflects the changes introduced under IFRS and if year end certification arrangements will adequately support the entries in the financial statements.</p>

Risk area	Audit response
<p>IFRS introduces changes in the accounting treatment and valuation of assets. These factors increase the risk of error and misstatement appearing in the financial statements.</p>	<p>I will review the competence, capabilities and objectivity of your valuer.</p> <p>Using information provided by an independent valuer employed by the Audit Commission's Audit Practice I will consider the reasonableness of asset values included in the financial statements.</p>
<p><b>New financial system</b></p> <p>The Council has replaced its revenue and benefits system. This has impacted on three significant financial systems – Housing Benefit, Council Tax and NDR.</p>	<p>I will review whether the Council has established:</p> <ul style="list-style-type: none"> <li>■ robust conversion controls to ensure all data has been completely and accurately transferred to the new system.</li> <li>■ appropriate and effective application system controls for data processing on the new system</li> </ul> <p>I will seek to place reliance on Internal Audit to complement my controls assessment.</p>

# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end. My testing strategy will have regard to the requirements of the new clarified International Standards of Auditing (ISAs) effective for the first time in 2010/11.**

## Testing strategy

**19** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**20** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Review of accounting estimates.
- Review of disclosure and presentation.
- Bank reconciliation.
- Valuation and existence of fixed assets.
- Feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

**21** Wherever possible, I will seek to rely on the work of your Internal Audit team to help meet my responsibilities. For 2010/11, I expect to be able to use the results of Internal Audit's testing of key financial systems as previously agreed.

## IT Risk assessment

**22** This year I will update my risk assessment of IT arrangements using a revised methodology developed by the Audit Commission's Audit Practice. My review will cover your corporate IT systems and where material to the financial statements any office based systems developed by users.

**23** The assessment will cover:

- entry level controls within Agresso;
- access security controls;
- data centre and network controls;
- program change controls, new systems acquisition and development; and
- end user computing.

## International Standards of Auditing

**24** The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of these new standards, you can expect to see changes in how my audit team delivers your audit, and in the information they request from you.

**25** In summary the main changes you will see relate to:

- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

### Journals

**26** ISA (UK&I) 330 (The Auditor's Response to Assessed Risks) requires me to review all material year-end adjustment journals. Depending on the compatibility of your general ledger software I can do this by using interrogation tools such as CAATs (computer-aided audit techniques). My team will agree a suitable approach to this work with you prior to the financial statements audit.

### Related Party Transactions

**27** ISA (UK&I) 550 (Related Parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of your controls to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Accounting Estimates

**28** ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

## Deficiencies in internal control

**29** ISA (UK&I) 265 (Communicating Deficiencies in Internal Control to Those Charged with Governance and Management) is a new standard.

**30** If I identify a deficiency in any of your internal controls during the audit, I will undertake further audit testing to decide whether it is significant. If I decide this is the case, I will report it in writing to the Governance and Audit Committee, as those charged with governance.

# Value for money conclusion

## I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

**31** In accordance with the Code of Audit Practice I have to be satisfied that you have established proper arrangements to secure economy, efficiency and effectiveness. The Audit Commission have specified two criteria which will provide the focus for my VFM conclusion:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**32** My initial planning identified some potentially significant risks which I considered might impact upon my value for money conclusion and I set these out in my letter of the 12 March 2010. I have revisited these risks in the light of the above new focus for the VFM conclusion and have refreshed my assessment of the key challenges facing the Council.

**33** I have planned my work so as to consider the arrangements you have put in place to mitigate the risks I have identified. The risks and audit response are set out in Table 2.

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Table 2: **Specific risks**

Specific VFM conclusion risks identified

Specific risks	Audit response
<p><b>Medium term financial planning</b></p> <p>The economic climate and the public spending pressures are having a significant effect on all councils. Ensuring sound underlying financial health will be a difficult challenge in the present economic climate.</p>	<p>As part of my assessment of the arrangements for securing financial resilience. I will consider your medium term financial plans and how you plan to address the specific risks you face.</p> <p>I will continue to review the Council's approach to closing its long term budget gap during medium term financial planning in the light of funding restrictions.</p>



Specific risks	Audit response
<p><b>Securing improvements in your use of resources</b></p> <p>The council has previously established sound arrangements for the achievement of value for money in the use of resources. In addition you have identified areas where you seek to make further improvements both in response to my previous reports and your own corporate priorities.</p>	<p>As part of my challenge as to how you are securing economy, efficiency and effectiveness I will follow-up my previous audit work to establish what progress you have made in response to improvement recommendations.</p>
<p><b>Town centre development</b></p> <p>The Council is a strategic partner in the proposed Town centre redevelopment.</p>	<p>I have made no specific provision for redevelopment in our plan but should the development progress significantly I will update my risk assessment and discuss any fee impact with the Borough Treasurer.</p>

## Key milestones and deadlines

**The Council is required to prepare the financial statements by the end of June 2011. I am required to complete the audit and issue the opinion and value for money conclusion in September 2011.**

**34** The key stages in producing and auditing the financial statements are in Table 3.

**35** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**36** Every week, during the audit, my audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

---

Table 3: **Proposed timetable**

Activity	Date
Walk-through testing of financial systems	February - March 2011
Controls and early substantive testing	March 2011
Receipt of accounts	June 2011
Working papers available to the auditor	June 2011
Start of detailed testing	18 July 2011
Review of draft accounts at audit committee	28 June 2011
Progress meetings	Formal monthly liaison and weekly during opinion audit .
Present report to those charged with governance at the audit committee	29 September 2011
Issue opinion and value for money conclusion	30 September 2011

# The audit team

## Table 4 shows the key members of the audit team for the 2010/11 audit

Table 4: **Audit team**

Name	Contact details	Responsibilities
Phil Sharman District Auditor	<a href="mailto:p-sharman@audit-commission.gov.uk">p-sharman@audit-commission.gov.uk</a> 0844 798 5839	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Catherine Morganti Audit Manager	<a href="mailto:c-morganti@audit-commission.gov.uk">c-morganti@audit-commission.gov.uk</a> 0844 798 4667	Manages and coordinates the different elements of the audit work. Key point of contact for the Borough Treasurer

## Independence and objectivity

**37** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor which I am required by auditing and ethical standards to communicate to you. The Audit Manager for the engagement is a friend of a Director of a company who has overseen the implementation of a financial system at the Council. Safeguards have therefore been put in place to ensure that the review of this system is performed by other members of my team.

**38** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

**39** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

40 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

41 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

42 My team will discuss and agree reports with the appropriate officers before issuing them to the Governance and Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual Governance Report	September 2011
Auditor's report giving an opinion on the financial statements and VFM conclusion	September 2011
Annual Audit Letter	November 2011

Phil Sharman

*District Auditor*

March 2011

## Appendix 1 Basis for fee

The Audit Commission's Audit Practice is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

**43** In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements by the agreed date;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

**44** Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance and Audit Committee.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	District Auditor (DA) and Audit Manager (AM)	Quarterly	General update
Borough Treasurer	DA as appropriate AM and Team Leader (TL)	Bi-monthly	General update plus: <ul style="list-style-type: none"> <li>■ March - Audit Plan</li> <li>■ June - accounts progress</li> <li>■ September - Annual Governance Report</li> <li>■ November - Annual Audit Letter</li> </ul>
Finance Key Contact	AM as appropriate and TL	Monthly Weekly at post statement	Update on audit issues
Governance and Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>■ Audit Plan</li> <li>■ Annual Governance Report</li> <li>■ Annual Audit Letter</li> <li>■ Other issues as appropriate</li> </ul>

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Directors**

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

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**0844 798 7070**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

March 2011

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4 March 2011

Mr Tim Wheadon  
Chief Executive  
Bracknell Forest Council  
Easthampstead House  
Town Square  
Bracknell  
Berkshire RG12 1AQ

**Direct line** 0844 798 5839

— Dear Tim

## **Annual audit fee 2011/12**

I am writing to outline the audit work that we propose to undertake for the 2011/12 financial year at Bracknell Forest Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

### **Audit fee**

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects a proposed 10% decrease in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees of 7% resulting from our new approach to local VFM audit work; and
- a cut in scale fees of 3% reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Bracknell Forest Council is £230,940. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above. Variations from the scale fee may be required where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit Commission, Unit 5 Cowley Business Centre, Horspath Road, Cowley, Oxford, OX4 2RD

T 01865 388950 F 01865 388999 [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

In addition to my statutory external audit I am required to certify claims and returns. My estimate of the audit and certification fees are summarised below.

<b>Audit area</b>	<b>Fee estimate 2011/12</b>	<b>Fee estimate 2010/11</b>
<b>Statutory audit fee</b>	<b>£230,940</b>	<b>£256,600</b>
<b>Certification of claims and returns</b>	<b>£60,000</b>	<b>£74,000</b>

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Borough Treasurer. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Governance and Audit Committee.

I propose to review your Medium Term Financial Strategy to support the VFM conclusion. I will issue a detailed project plan before work begins. I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes any assurance or advisory work which you may invite me to perform under the Commissions advice and assistance powers. Such work is discretionary and therefore I will negotiate each assignment separately and agree a detailed project specification.

### **Audit team**

Your external audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Phil Sharman Engagement Lead	<a href="mailto:p-sharman@audit-commission.gov.uk">p-sharman@audit-commission.gov.uk</a> 0844 798 5839	Phil is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Governance and Audit Committee and issuing the auditor's report.



Name	Contact details	Responsibilities
Catherine Morganti Engagement Manager	<a href="mailto:c-morganti@audit-commission.gov.uk">c-morganti@audit-commission.gov.uk</a> 0844 798 4667	Catherine manages and coordinates the different elements of the audit work. Key point of contact for the Borough Treasurer.
Rachel Cobley Team Leader	<a href="mailto:r-cobley@audit-commission.gov.uk">r-cobley@audit-commission.gov.uk</a> 0844 798 1793	Rachel has experience of auditing the financial statements of large local authorities. She will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Phil Sharman  
District Auditor

cc Chris Herbert - Borough Treasurer

cc Cllr Alan Ward - Chair of the Governance and Audit Committee

## Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Governance and Audit Committee.

---

**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the Borough Treasurer)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

# A new approach to value for money audit

Local government, housing and community safety

December 2010

## Contents

Single tier, county and district councils, fire and rescue authorities and police authorities	2
Other local government bodies	3
Other local government bodies with turnover above £6.5 million	3
Other local government bodies with turnover below £6.5 million	3
Summary	4

Enter ►

## Single tier, county and district councils, fire and rescue authorities and police authorities

From 2010/11 auditors of single tier, county and district councils, fire and rescue authorities and police authorities will give their statutory value for money (VFM) conclusion based on two criteria specified by the Commission, as follows:

### Specified criteria for the auditor's VFM conclusion

The organisation has proper arrangements in place for securing financial resilience.

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

### What the auditor will consider

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### The work to support the VFM conclusion

The auditor will undertake risk-based work focusing on the robustness of the organisation's arrangements relating to financial governance, strategic financial planning and financial control. The auditor's work may be informed by the results of previous audit work, the Commission's guidance for auditors and tools such as the VFM profile tools and the local government financial ratios tool.

The auditor will undertake risk-based work on the robustness of the organisation's arrangements for prioritising resources and improving productivity and efficiency. This may be informed by the results of previous audit work, and the work of other inspectorates or review agencies. Auditors may use a range of tools for this work, on a risk basis, comprising the Commission's VFM profile tools, HM Inspector of Constabulary VFM profiles for police, the local government financial ratios tool, Commission national studies and follow-up briefings, and new local savings review tools.

The Commission has developed new local savings review tools, for use on a risk basis by auditors, based on three previous studies:

- The Efficiency Challenge (the administration costs of revenues and benefits);
- Back to Front (efficiency of back office functions in local government); and
- Rising to the Challenge (improving fire service efficiency).

Source: Audit Commission

Auditors will determine a local programme of VFM audit work based on their audit risk assessments, informed by these criteria and their responsibilities under the Code of Audit Practice (the Code).

## Other local government bodies

For 2010/11, there is no change in approach to auditors' work to deliver a VFM conclusion for other local government bodies.

## Other local government bodies with turnover above £6.5 million

For 2011/12, larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives and probation trusts, auditors will apply a light touch approach which will result in less work than is currently undertaken.

This will involve:

- reviewing the annual governance statement (AGS) or statement on internal control (SIC);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- other local risk-based work as appropriate, or any work mandated by the Commission.

This light touch approach will also apply at joint committees and other miscellaneous local government bodies.

## Other local government bodies with turnover below £6.5 million

For 2011/12, we are removing the requirement for auditors to issue a VFM conclusion at audited bodies with annual income or expenditure below the turnover threshold for small companies audit exemption (currently £6.5 million). In applying this approach the Commission and auditors will be relying on paragraph 4 of the Code, which requires auditors of smaller bodies to apply the Code in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the Commission.

## Summary

The application of the new approach to VFM audit to different types of audited body is summarised in the Table 1 below.

Table 1: **A proportionate approach to the auditor's VFM work**

Type of body	No requirement for VFM work for 2011/12	VFM work based on review of the AGS/SIC for 2011/12	VFM conclusion based on specified criteria for 2010/11
Local government bodies with annual income or expenditure below £6.5million <sup>i</sup>	✓		
Probation trusts		✓	
Other bodies with annual income or expenditure above £6.5 million <sup>ii</sup>		✓	
Single-tier, county councils (including those with fire service responsibilities) and district councils			✓
Fire and rescue authorities			✓
Police authorities			✓

Source: Audit Commission

<sup>i</sup> Includes local councils, internal drainage boards, smaller national parks authorities and smaller joint committees.

<sup>ii</sup> Includes integrated transport authorities, passenger transport executives, larger national parks authorities, larger joint committees, waste disposal authorities and pensions authorities.

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**Audit Commission**

1st Floor

Millbank Tower

Millbank

London

SW1P 4HQ

Telephone: **0844 798 3131**

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

**[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)**

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**GOVERNANCE AND AUDIT COMMITTEE  
22 MARCH 2011**

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**CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT:  
HOUSING BENEFIT AND COUNCIL TAX SUBSIDY AND HOUSING BENEFIT  
INTERNAL AUDIT REPORT 2010/11  
Director of Environment, Culture and Communities**

**1 PURPOSE OF DECISION**

- 1.1. The purpose of this report is to provide Committee with a commentary on the findings of the 2009/10 Audit of the Housing and Council Tax Benefit Subsidy and to re-assure members of the actions taken and proposed in response of the findings. In addition the report appraises members of the second internal audit report of the Housing and Council tax benefit system following the transfer between the Pericles and Northgate systems, the first part being pre-transfer between the two systems.

**2 RECOMMENDATIONS**

- 2.1 That the action plan proposed in response to the findings of the certification of the housing and council tax subsidy claim be noted.**
- 2.2 That the proposed actions in response to the internal audit report of the housing benefit service post implementation of the new Northgate system be noted.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1. The certification of the claim for Housing and Council Tax Benefit Audit found a significant number of errors when testing cases. Governance and Audit Committee were appraised of this at their September meeting and while the final audit shows an improved position from what was reported at that time errors still remain. The audit indicates the potential loss of subsidy of £60,000 against a total subsidy claim of £34 million
- 3.2. Nevertheless, there are issues identified that require a management response. The findings broadly fall into two categories, criticism of quality of work and shortcomings in the support of the audit that took place over the summer and early autumn of 2010.
- 3.3. The internal audit report is the second part of the audit following the transfer between the Pericles and Northgate systems. The report and recommendations may be utilised in the external audit for 2010/11.
- 3.4. Members will be aware of the Audit Commission inspection of the Benefit Service in 2009/10 which judged the service to be fair with promising prospects for improvement. The recommendations from the audit will build on that position.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There is no alternative to the proposed actions. If the issues identified are not addressed there is a risk to the Council that Local Authority error will lead to future certification of the claim and loss of subsidy. The Council claims over £34 million of Housing and Council Tax Subsidy and therefore the impact of the loss of subsidy can be substantial.

## **5 SUPPORTING INFORMATION**

### **Certification Report and Action Plan**

- 5.1 The certification report and associated Action Plan are attached as Appendix A to this report. Appendix B of this report is the proposed action plan in response to those recommendations. Some of the actions will have been completed by the time Members receive this report.
- 5.2. From the initial discovery sample the auditors found a majority of claims had errors and this is significant management concern.
- 5.3. The first area where errors were found was in the setting of parameters in the system to calculate benefit and thus subsidy. Of particular concern was the fact that an error in one parameter identified in the 2008/9 audit had not been corrected in time for the 2009/10 audit. The correction was not in the gift of the Council to make and relied upon the software supplier to perform. Members will be aware that the supplier of the Pericles system had been purchased by Northgate thus the need for the Council to seek an alternative system as Pericles was not going to be supported in the future. Northgate were continually chased to provide the necessary resolution to the parameter setting from when it was identified. However, there is a concern that this was not escalated beyond operational level both in the Council and Northgate.
- 5.4 At the time of writing this report the action contained in the action plan accompanying the audit has been completed in that the parameters have been checked by the officer leading the year end process then the Benefit Service Manager and subsequently by the Chief Officer against the relevant circular. Moreover, it should be noted that the recent housing and council tax benefit audit (March 2011) at Appendix C undertaken on the transfer of benefit IT systems has found that when checking the parameters in the new Northgate system they were found to be correct and no recommendations were made.
- 5.5 The second area where errors were found was in misclassification of expenditure. In the first case this referred to staff miss-classifying expenditure in terms of assigning expenditure to the incorrect cell in particular council tax benefit. There was inconsistency in the assessment officer actions. This should have been picked up by more rigorous checking and supervision to identify the problem earlier and offer support and training.
- 5.6 Meetings have taken place with the Benefit Service Management Team and the whole service to reinforce the importance of accuracy in classifying expenditure. Staff undertook training on the 3 and 4 March 2011. A new quality checking regime has been put in place for benefit assessments. Staff have been advised that the failure to achieve the required level of quality will result in the operation of the Council's Capability Procedure.
- 5.7 The audit also found wrong classification of non-Housing revenue account rent rebate expenditure. The classification has now been checked and a new process is in

place between the Housing and Benefit Services to ensure correct classification takes place in the future. The recent audit (March 2011) of the new system checked change of circumstances, new applications, backdated awards and found the items checked to be satisfactory and made no recommendations.

- 5.8 The next area identified was earnings miscalculation and lack of supporting information. Again this points at quality of work and has been addressed by the actions mentioned in the previous paragraphs. Staff have already been reminded of the need to improve the recording of their decisions in the checklist provided when they assess a claim. Training requirements will be identified via the new supervision process. Checking of all high value payments and all of the work of new members of staff is in place. A target is in place to check 10% of all assessment work and quality targets of 99% for financial error and 98% for procedural error.
- 5.9 It is intended to review the level of management resource devoted to ensuring the correct level of quality is achieved in the assessment function. The capability of the management of the Benefit Service will be reviewed in line with the Council's Performance Improvement and Capability Procedure. It has been agreed that random internal audits of benefit assessment will be undertaken in the first quarter of 2011/12. This will compare assessment activity against the checklist as well as ensuring that expenditure is recorded in the correct cells. All internal reports will be presented to the Director and Chief Executive until the target level of accuracy has been achieved.
- 5.10 The next area refers to supporting the work of the audit. The availability of experienced staff to support the audit in the last financial year was impacted by the benefit system transfer from Pericles to Northgate.
- 5.11 It is worth noting that in the financial year 2010/11 the Benefit Service was subject to eight separate internal/ external audits, a full and detailed inspection from the Audit Commission and the transfer of IT systems. Although agency staff were employed to back fill during the system transfer process they did not have the same detailed knowledge of the directly employed staff who were working on the system transfer. Whilst it is regrettable that the level of support for the audit from experienced staff was not available at the appropriate time those staff were promoted to work on the IT system transfer which was seen as priority.
- 5.12 So as to support the 2010/11 audit the relevant managers have received training on the new Northgate system. The audit for 2010/11 has already begun and a programme of support for the auditors has been agreed.

#### **Housing Benefit Internal Audit Report**

- 5.13 Appendix C contains the internal audit report on the Housing and Council Tax Benefit system. This is a part 2 audit following on from the previous audit prior to the transfer from the Pericles to the Northgate system. The audit has provided an overall limited assurance on controls in place for the Housing and Council Tax Benefits systems.
- 5.14 There are three priority one recommendations which generate the limited assurance opinion. These refer to data migration, debt collection and general ledger reconciliation.

#### **Data Migration**

- 5.15 It has not been possible to provide overall assurance that the data migration from Pericles to Northgate took place in line with controls. It is accepted that the requisite checking of all transferred data where there was an error in excess of 10 pence on the claim was checked and corrected. Through testing of individual benefit cases no discrepancies were found but the auditors were not satisfied that reconciliation had taken place as demonstrated in the records of checking and amending.

### **Debt Collection**

- 5.16 The debt module on the Northgate system was not operational at the time of the audit. The delay in implementing the module was due to the need for the supplier to run a script to correct information from the data transfer and this did not take place until the 11 February. It was recognised that the existing process for debt recovery was unchanged. Any debt created in the new system was held in a suspense account pending the operation of the overpayment module and the issuing of invoices. However, customers who had received an overpayment had been written to advising them of this in advance of the issue of the invoices. The overpayments module went live on the 4 March and in week commencing 7 March invoices were generated.

### **General Ledger reconciliation**

- 5.17 The audit confirmed that the reconciliation to the general ledger from the Northgate system had not been completed. Reconciliation should have taken place at the end of each month and it had not been possible to undertake this activity since October when the Pericles system was shut down.
- 5.18 Reconciliation requires successful operation of the overpayment module which was not operational until after 11 February as mentioned previously.. The completion of the year end process has delayed this action but it is anticipated that the reconciliation will be completed by the 11 March in the week commencing 21 March.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### **Borough Solicitor**

- 6.1 Nothing to add to the report.

### **Borough Treasurer**

- 6.2 If the auditor is not satisfied with our responses to her findings this could affect the subsidy paid to the Council. The Department for Work and Pensions decides whether to adjust the claim. The 2009/10 accounts showed the subsidy claimed so we could have to report any change at this stage in the 2010/11 accounts.

Qualification of a claim can also lead to the Department for Work and Pensions withholding current year (2010/11) subsidy payments. They have not withheld any 2010/11 payments so far. There is one more payment to go. If the Department withholds payments this affects the Council's cash flow but not our overall financial position at the year end because they will audit the 2010/11 claim in its own right.

### Equalities Impact Assessment

- 6.3 An Equality Screening Form is included at Appendix D.

### Strategic Risk Management Issues

- 6.4 Failure to address the issues contained in the audit may result in the Council losing subsidy for the benefit payments it makes. This report has commented on the progress made in implementing the action plan to address those issues.

### Background Papers

Certification of claims and returns annual report Bracknell Forest Council Audit 2009/10  
Housing and Council tax draft audit report March 2011

### Contact for further information

Simon Hendey  
Chief Officer: Housing  
DD Telephone No. 01355 351879  
e-mail: [simon-hendey@bracknell-forest.gov.uk](mailto:simon-hendey@bracknell-forest.gov.uk)

### Doc. Ref



# Certification of claims and returns - annual report

Bracknell Forest Council  
Audit 2009/10

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**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

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# Contents

<b>Summary</b> .....	<b>2</b>
Certification of claims and returns .....	2
Significant findings.....	2
Certification fees .....	3
Actions .....	3
<b>Background</b> .....	<b>4</b>
<b>Findings</b> .....	<b>5</b>
Control environment .....	5
Specific claims - Housing Benefit and Council Tax subsidy .....	5
<b>Appendix 1 Summary of 2009/10 certified claims</b> .....	<b>11</b>
Claims and returns above £500,000.....	11
Claims between £125,000 and £500,000.....	11
<b>Appendix 2 Action Plan</b> .....	<b>12</b>

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## Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on the Housing Benefit and Council Tax Benefit claim that we amended and qualified.**

### **Certification of claims and returns**

1 Bracknell Forest Council receives more than £120 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified 5 claims with a total value of £95.474 million. Of these, we carried out a limited review of 3 claims and a full review of 2 claims (paragraph 9 explains the difference). There was 1 claim which needed amending, which we were unable to fully certify and therefore issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

### **Significant findings**

3 We were able to certify most claims without amendment or qualification; however we found a significant level of errors while testing cases for the Housing Benefit and Council Tax Subsidy claim. We mentioned the results of our early testing on this claim in our Annual Governance report to the Governance and Audit Committee in September 2010. This report now updates the Governance and Audit Committee on the final results of our work.

## **Certification fees**

4 We charged a total of £74,000 for certification work in 2009/10 (compared to a fee of £60,670 for 2008/09). The most significant element (over 90%) was the fee for the Housing Benefit and Council Tax claim.

## **Actions**

5 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

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## Background

6 The Council claims £120 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Bracknell Forest Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

9 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree form entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

10 We have been able to rely on the Council's control environment for most parts of all claims, except for Housing Benefit and Council Tax subsidy. This claim falls outside the scope of paragraph 9 because of its size and complexity. The Audit Commission's report on certification work for 2008/09 "Local Government claims and returns" noted that 85% of Housing and Council Tax Benefits claims were either amended, qualified or both.

11 In addition we tested eligibility of expenditure on the Surestart, Early Years and Childcare grant because of our qualification in 2008/09 on eligibility. Results of these tests were satisfactory.

## Specific claims - Housing Benefit and Council Tax subsidy

12 We found a high level of errors when certifying the Housing Benefit and Council Tax Subsidy claim. We therefore had to carry out significant extra testing and qualified the claim. This means there were parts of the claim which we reported to the Department for Work and Pensions (DWP) that we could not conclude were fairly stated. We have prepared a separate report on the issues arising for the Housing Benefit team for staff to prepare an action plan to address the issues.

13 We certify the claim using detailed instructions agreed between the DWP and the Audit Commission. Among other tests we have to test an initial "discovery" sample of the main types of subsidy. Should errors be found in that initial sample, we have to evaluate them and assess whether we need to carry out further testing.

14 The table below shows the error rates from our initial discovery sample.

Table 1: Level of errors found in initial discovery samples

type of subsidy	discovery sample size	level of errors
Non HRA rent rebates	15 cases	14 errors
Rent Allowances	20 cases	10 errors
Council Tax Benefit	20 cases	11 errors

15 The discovery sample errors meant we had to carry out more testing to give the DWP the information it requires to determine if further action is required. The overall results of both the initial and discovery testing led to the claim being amended. As a result subsidy payable to the Council increased by £11,222. However due to the number of errors found we also issued a qualification letter to the claim setting out our findings for the DWP. The extrapolated impact of errors set out in our qualification letter could lead to a potential reduction of subsidy of £60,000. This was based on the results of further testing. It is less than our estimate of £228,000 reported in our Annual Governance report in September 2010 which was based on the results of our initial testing.

16 The key themes from our work causing concern were:

- setting of parameters;
- misclassification of expenditure;
- earnings miscalculation or lack of supporting evidence resulting in an overpayment;
- miscellaneous errors;
- interrogation of the Council's Benefit and Revenues system - Pericles; and
- achieving the DWP's deadline for certifying the claim.

17 The Council changed its revenues and benefits system during 2010/11 financial year. It should consider the findings from our certification work in 2009/10 in the context of the new system.

### Setting of parameters

18 Each year the Council inputs parameters onto the benefits system to reflect changes in Housing Benefit regulations and allow it to carry out benefit calculations. 8 testing failures in our discovery sample were due to parameters not being updated. We reported in 2008/09 that the rate for second child benefit for 2008/09 had not been input correctly. This was not amended in time for the 2009/10 claim, so payments that related to 2008/09 and which were made in 2009/10 were incorrect. We also found that some parameters for non-HRA rent rebates had not been updated and this led to subsidy being under claimed.

19 It is essential the Council inputs parameters correctly in good time. As this is the second year of problems with parameters Internal Audit have agreed to focus some of their testing on parameters in 2010/11.

## Recommendation

### R1 Parameters

- Ensure these are entered correctly as soon as possible in the year.
- Ensure that this is independently checked.
- Maintain documentary evidence of this - so that further audit

## Recommendation

queries can be dealt with efficiently and quickly.

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### Misclassification of expenditure

20 The claim is made up of several entries or "cells" for different types of benefit granted. Our certification instructions require us to test whether cases have been correctly coded to the cells within the claim. In many cases, particularly overpayments of benefit, the classification of expenditure impacts on the level of subsidy the Council can claim. This is particularly the case when the level of Local Authority overpayments is increased over the threshold for that Council. If the upper threshold is exceeded the Council will lose all subsidy for these overpayments.

21 We found several cases in our original discovery sample where cases had been incorrectly analysed between cells, in particular for Council Tax Benefit overpayments (6 cases) and non HRA rent rebates (8 cases). On finding these errors we had to carry out further testing drilling down to establish the extent of errors.

22 Misclassification of non HRA rent rebates has occurred in previous years' claims. As the number of cases is relatively small we have suggested the Benefits team check all cases before we start work on the 2010/11 claim.

## Recommendation

R2 Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.

R3 Review non HRA cases before certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.

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### Earnings miscalculation or lack of supporting evidence resulting in overpayment

23 We found a number of errors in how claimants' earnings had been calculated. This led to overpayment of benefit to claimants. The Council receives less subsidy for errors it has made.

24 One of the main errors was failing to use the correct number of payslips to support the entitlement of earnings. In many cases there was no

explanation on file for this. The Benefits team have a checklist which sets out how judgements have been reached but we found that it was not used consistently. There is scope to use this checklist and include details of judgements such as why particular payslips or a different number of payslips from the standard guidance are used. This would provide a trail for staff who assess cases at later dates. It would also help managers both in their sample check of cases and in assessing training needs. Finally it may help reduce audit input when certifying the claim.

25 As a result of these errors we had to carry out additional testing (we call this 40 plus testing) focusing on how earnings had been calculated. We found:

- Rent allowances - a further 4 cases containing errors. When the value of errors for all cases tested was extrapolated there was a potential subsidy over claim of £39,769.
- Council Tax Benefit - a further 2 cases found of overpayments of benefit. When the value of all overpaid cases tested was extrapolated there was a potential subsidy over claim of £20,551.

### **Underpayment of benefit**

26 We found a variety of errors which led to claimants being underpaid benefit including incorrect treatment of tax refunds, incorrect calculation of earnings, one claimant being assessed incorrectly as if not in receipt of Income Support, and rent incorrectly recorded. Our 40 plus testing on earnings also identified three further cases underpaid due to incorrect calculation of earned income.

### **Recommendation**

- R4** Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.
- R5** Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.
- R6** Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

### **Interrogation of Pericles Benefits system**

27 On finding errors we had to conduct further tests in more depth to attempt to quantify their impact for the DWP to determine any action. We found that staff were unable to provide extracts of the Pericles system for an error we found on capital cases so this was included as unquantified in the qualification letter. Selecting additional samples around the errors found on earnings was also time-consuming due to this. There is scope for relevant



staff to be trained on the new Northgate system to improve their ability to interrogate the system effectively. If this is not done the Council will continue to be at risk of losing subsidy for benefit payments it makes.

### Recommendation

**R7** Ensure that benefit managers are able to interrogate the Northgate system adequately for their own management purposes and also to allow errors found as part of certification testing to be quantified.

### Achieving the DWP's deadline for certifying the claim

28 Our work took place at a busy time for the Benefits section as staff were engaged with the migration from Pericles to Northgate. We therefore timed our work with the aim of completing it for the end of September to fit around this.

29 We were unable to achieve this as, due to the significant level of errors found, we were required to carry out 40 plus testing. Our testing focused on the errors we found, including:

- earnings for Rent allowances and Council Tax benefit,
- Council Tax Benefit overpayments and
- Guaranteed pension credits (GC).

30 In order to minimise cost to the Council we asked the Benefits team to carry the extra testing. There were delays in getting some of this testing back and much of it was not of sufficient quality for us to rely on. After raising this with senior staff in the service they were able to reperform some of this additional testing but in order to meet the certification deadline we had to carry out the majority of it ourselves. This has impacted significantly on the level of fee for the 2009/10 certification.

31 We have since discussed this with staff. Their view is that if there was an issue in the quality of response due to staff availability, it was because experienced staff were involved with the move to the new system and therefore some requests were dealt with by agency staff who would not have the full knowledge of how the Council operate the systems.

32 In future years, should 40 plus testing be required, staff of appropriate skills should be allocated to the work.

### Recommendation

**R8** Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

## Looking forward

33 The 2010/11 claim will be made of output from the new Northgate system. But due to the mid year system change some transactions history will remain in Pericles. The processing of claims through two systems will complicate the claim certification during the 2010/11 year. It will be essential there are clear audit trails making up the entries on the claim and that audit queries are responded to promptly and appropriately. We will work with the Benefits team to draw up a timetable with the aim of meeting the certification deadline. We suggest that this is done as soon as possible.

### Recommendation

R9 The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline

Phil Sharman  
District Auditor  
February 2011

# Appendix 1 Summary of 2009/10 certified claims

## Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	32,287,215	No	Yes	Yes
Sure Start, Early Years and Childcare	3,024,205	Partial due to qualification on eligibility in 2008/09.	No	No
National Non Domestic Rates	53,509,084	Yes	No	No
Teachers' pensions return	6,391,378	Yes	No	No

## Claims between £125,000 and £500,000

Claim	Value £	Amended
Disabled facilities	262,000	No



## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

Parameters

- Ensure these are entered correctly as soon as possible in the year
- Ensure that this is independently checked.
- Maintain documentary evidence of this - so that further audit queries can be dealt with efficiently and quickly.

**Responsibility** Benefit Service Manager

**Priority** High

**Date** March

**Comments** The year end process on the Northgate system will be complete by the 3/4th of March. The parameters are hard coded into the system. Parameters will be checked by the senior assessment officer leading on this work, subsequently checked by the Benefit Service Manager and subsequently sample checked by the Chief officer: Housing against the Circular HB/CTB A26/2010

#### Recommendation 2

Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.

**Responsibility** Benefit Assessment Manager

**Priority** High

**Date** March 2011

**Comments** All assessment staff will be advised in writing by end of February of expenditure classification requirements. Training will take place on the 3/4 March to reinforce requirements. Sample checking of 10% Assessment Officer work will take place each month and issues identified fed back via the supervision process so that support and training is offered where required; at least 5% new claims and 5% Change of Circumstances.

#### Recommendation 3

Review non HRA cases in advance of certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.

**Responsibility** Control & System Support Officer



<b>Priority</b>	Medium
<b>Date</b>	March 2011
<b>Comments</b>	<p>All existing Non-HRA expenditure has been reviewed and classified in line with the appropriate code on the Northgate system.</p> <p>All non-HRA rent rebate expenditure cases will be reviewed on a monthly basis to ensure correct classification.</p> <p>Housing Options Service to review notification of temporary accommodation to Benefit Service in line with subsidy classifications via a proforma in line with expenditure classification from beginning of March to ensure consistency of approach.</p>

#### Recommendation 4

Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Staff have received refresher training in October 2010. Checking of work undertaken monthly and issues fed back via supervision process.

#### Recommendation 5

Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Staff have been advised of need to provide full breakdown on reasons for benefit entitlement and to ensure this is adequately reflected in notebooks. Sample checking to be undertaken on earned income benefit claims on a monthly basis.

#### Recommendation 6

Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Checking of all benefit assessment will be undertaken for all new assessment staff for their probation period of six months. All payments of over £ 1,000 will be checked before payment.

#### Recommendation 7

Ensure that benefit managers are able to interrogate the Northgate system adequately for their own

management purposes and also to allow errors found as part of certification testing to be quantified.

**Responsibility** Benefit Service Manager

**Priority** Medium

**Date** March 2011

**Comments** All managers have received training on the new Northgate system to enable interrogation. Additional support and training will be required for the Control & System Support Officer when she returns from maternity leave and this has already been arranged.

#### Recommendation 8

Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

**Responsibility** Benefit Service Manager

**Priority** High

**Date**

**Comments** The timetable for the certification work has been provided by the auditors. Staff with appropriate skills will be available to support the auditors at the appropriate times. Initial work and support has already been agreed.

#### Recommendation 9

The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline

**Responsibility**

**Priority** High

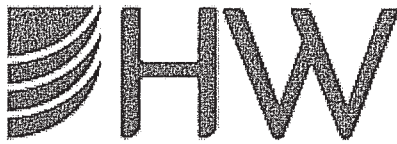
**Date** April 2011

**Comments** The response to the recommendations is set out above. A plan of support for the Audit Commission has been agreed to support the audit based on their draft timetable



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Bracknell  
Forest  
Council

## Internal Audit

# Housing & Council Tax Benefits (Part 2)

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**Report status:** Draft

**Report date:** 3<sup>rd</sup> March 2011

**Financial period:** 2010/11

**Prepared by:** Mark Gee, Jill Hills, Auditors (01252 510333)

**Reviewed by:** Jay Hussain, Audit Partner (01252 510333)

## SECTION 1: EXECUTIVE SUMMARY

### 1. Introduction

This audit forms part of the agreement between HW Controls & Assurance and Bracknell Forest Council for the delivery of the approved audit plan for 2010/11.

### 2. Audit Scope

The audit work was structured to confirm the effectiveness of the controls in place over the Housing & Council Tax Benefits system.

### Objectives

The objectives of the audit focused on the following areas:

- Policies and Procedures;
- Reconciliations for data migration;
- Data migration between Pericles and Northgate;
- Benefits transactions;
- Debt collection;
- Amendments to standing system data;
- IT security;
- Compliance with GCSx;
- General ledger reconciliations; and
- Previously identified weaknesses.

### Key potential risks

The key potential risks associated with housing and council tax benefits are:

- Policies and procedures are not in place or adhered to leading to inefficient/erroneous/fraudulent activity;
- Data migration from Pericles to Northgate has not been accurately transferred;
- Unauthorised and inappropriate benefits payments are being processed;
- Benefit parameters are incorrect;
- IT controls are not designed or implemented appropriately;
- The Council is in breach of the GSI code of connection; and
- Systems reconciliations are not performed or reviewed leading to irregular or erroneous payments going undetected.

## 3. Summary of Findings

### OVERALL AUDIT OPINION

Overall, Internal Audit can give **Limited** assurance on the controls in place for the Housing & Council Tax Benefits.

Detailed findings are set out in Section 2. Individual audit objectives within the scope of the review have been assessed as follows:

Individual Audit Objective Areas	Assurance	No. Of Recs		
		Priority		
		1	2	3
Policies and Procedures	Satisfactory	-	1	-
Reconciliations for data migration	Limited	1	-	-
Data migration between Pericles and Northgate	Significant	-	-	-
Benefits transactions	Satisfactory	-	1	-
Debt collection	Limited	1	-	-
Amendments to standing system data	Significant	-	-	-
IT security	Significant	-	-	-
Compliance with GCSx	Satisfactory	-	2	-
General Ledger reconciliations	Limited	1	-	-
Previously identified weaknesses	n/a	-	-	-
<b>Total</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>-</b>

Assurance Level	Definition
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied.
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	<b>There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.</b>
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

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**SECTION 2: DETAILED REPORT****Directorate:** Environment, Culture and Communities**Key Audit Contacts:** Benefit Service Manager**Date of last review and Opinion:** 6th December 2010, Satisfactory**Start Date:** 25<sup>th</sup> January 2011**Background**

The administration of Benefits was previously processed on the Pericles system which was replaced with the Northgate system on 2<sup>nd</sup> November 2010. Part one of the audit was performed for the period from April 2010 to August 2010 to ensure that the controls were operating effectively before the transition to the new system. Part two of the audit has been performed to ensure that the migration of data from Pericles to Northgate has been accurately completed and to ensure that the controls are operating effectively after the transition to Northgate.

The administration of Housing & Council Tax Benefit is undertaken by the Benefits Service. The Benefits Service is made up of a team of over fifteen officers, reporting to the Benefit Service Manager who in turn reports to the Housing Chief Officer.

**Detailed Findings**

Detailed findings relating to areas of risk identified as part of this audit are set out below. Appropriate actions will be discussed with management during the exit meeting to be held on 28<sup>th</sup> February 2011

**1. Policies and Procedures**

At the time of the audit visit we noted that the prevailing procedure notes were in the process of being updated to reflect the processes of the new system (Northgate). We understand through discussions and initial observation that Northgate comes with comprehensive system procedures. All procedures are accessible to users on the Benefits shared drive.

Through discussion it was confirmed work has begun to construct specific procedure notes for the new system. We tested a sample of 5 procedure notes chosen from the Benefits shared drive which had been updated since the migration to Northgate.

Two of the procedure notes viewed were provided directly from Northgate. Of the remaining three procedures reviewed which had been produced internally, it was noted that there was no evidence of the last date of review or the preparer/reviewer. A recommendation has been made to rectify.

Through examination of the procedures for backdates it was observed that the notes do not address key controls in the review process. Whilst accepted that procedure notes are a work in progress, a recommendation is raised to address the risk of inefficiency or inconsistent working practises being adopted.

*A recommendation has been raised. (Section 3, recommendation 1)*

## 2. Reconciliations for data migration;

We discussed the reconciliation process for ensuring that data was accurately transferred from Pericles to Northgate. Northgate produced a Dataload report detailing each of the dataload files, the number of records accepted and the number of errors recorded and the number per type of error identified. They also made recommendations for data records that BFC should sample check as part of the reconciliation process to ensure the accuracy of the go live data.

There was a two week data cleansing period whereby no new data was added to Northgate and all officers focused on reviewing the reports produced by Northgate and clearing any discrepancies identified between the two sets of data. Discrepancies were exported into a series of spreadsheets which were used to control the clearing down and correction of data discrepancies. SQL reports were run to compare the two databases and any discrepancies were checked through and amended.

A number of the discrepancies related to old claims, as only claims in payment at the cut off date were transferred across to Northgate. Every claim with a difference in the calculated benefit entitlement greater than 10p were reviewed and corrected where appropriate. We were advised that the majority of the smaller discrepancies were due to rounding differences between the two systems.

No processing of new or amended claims data were actioned until all data transfer issues were resolved.

We have been provided with copies of the SQL reports which clearly show evidence of officers checking off each discrepancy. However, it is not always clear how the SQL reports relate to the errors reported in the Northgate Dataload report and therefore we cannot say with any certainty that all errors identified by Northgate when transferring data between the two systems have been satisfactorily resolved. In addition, we have been provided with a number of spreadsheets produced as part of the migration process. However, our review of these documents identified a number of queries that have been referred back to the Benefits team for further clarification before we are able to provide assurance that the overall transfer of data from Pericles has been accurately to Northgate although testing of individual benefit cases reviewed in paragraph 3 below did not identify any discrepancies.

*A recommendation has been raised. (Section 3, recommendation 2).*

## 3. Data migration between Pericles and Northgate;

We reviewed the data migration process by re-testing the sample selected from part one of the audit. The following areas were tested for the accuracy of the migration from Pericles to Northgate. This time the sample was tested to gain assurance that details had been accurately and completely migrated from Pericles to Northgate. Samples of 20 (except where noted) were tested as follows:

- Declaration of interests recorded on system; (5);
- Change of Circumstances;
- New applications;
- Backdated awards;
- Overpayments;
- Write offs (not applicable); and
- Debt Collection

No issues were identified as a result of our testing.

#### 4. Benefits transactions

Key benefits transactions include change of circumstances, new applications, backdated awards and payments.

Random samples of 20 transactions<sup>1</sup> for the categories below were tested:

- Change of Circumstances;
- New applications;
- Backdated awards; and
- Payments (5 payments runs each for both cheques and BACS).

Our testing identified 3 out of 5 instances where manual amendments were made to BACS payments prior to the actual payments being made. These manual amendments were noted to all be reductions in the overall total of the BAC's payment. Discussion with officers confirmed that these were due to the need to stop payments being made to claimants whereby a last minute change of circumstances would have led to them being overpaid if the BAC's payment was processed. Officers confirmed that the BAC's would only ever be reduced by such amendments and never as a way of increasing or adding a payment to the BAC's run. Officers stated that the reason for the need to be able to amend the BAC's payment at this stage was because the process to generate the BAC's takes place overnight, otherwise the system would not be available for users if it was run during the day. However, we understand from IT that it should be possible to make the amendments on the system up to the point the final BAC's payment run is made and for them still to feed through to cancel the BAC's payment. A recommendation has been made that the Benefits section should clarify this with IT in order that the ability to make amendments is only use in very exceptional circumstances.

Apart from the BACS issue the other testing results were satisfactory.

*A recommendation has been raised. (Section 3, recommendation 3).*

#### 5. Debt collection

All overpayments are reviewed by the Recovery Officer and the Recovery Assistant. There have been no fundamental changes to the process for debt recovery since the introduction of Northgate.

We noted at the audit planning stage that the debtors module for Northgate had yet to go live. Currently, any new debts requiring an invoice are held in a suspense account pending the running of overpayments. Consequentially invoices are not raised and sent to recipients of overpayments. Discussions with the Benefits Service Manager confirmed that in these circumstances claimants have been written to advising them of the overpayment, although a formal invoice will not be raised until the debtors module goes live.

In addition, the Benefits Service Manager confirmed that where an existing debt on transfer to Northgate was being recovered by the agreed reduction in benefit payable, these arrangements were continuing.

A sample of 20 overpayments was tested and it was noted that in 4 instances an invoice was required but could not be raised due to the Northgate debtors not being fully operational. These 4 overpayments are recorded in the suspense account, 4 are due to

<sup>1</sup> Unless stated otherwise in brackets



be recovered as part of Council tax billing process and the remaining 12 are to be recovered by adjusting the recipients' ongoing entitlement.

We understand that although the debtors module is not currently in use, the Benefits team have still been processing write offs on the system. In addition, there are debts that have been showing on Agresso from before Pericles e.g. 1999, which have only recently been approved for write off. We understand from officers that debts raised on Pericles have not been transferred to Northgate as this would feed through to the subsidy calculations making it inaccurate as these Pericles debts have already been claimed.

*One recommendations have been raised. (Section 3, recommendation 4).*

## 6. Amendments to standing system data

In order to verify that the parameters used by the Northgate software to calculate housing and council tax benefit entitlement are accurate we performed a 100% check of parameters to the Up Rating Checklist for 2010/11 provided by the Audit Commission. We initially obtain a parameter report from Northgate and endeavoured to match this to the Up Rating Checklist. This enabled us to verify the accuracy of 46 of the parameters (bearing in mind that one parameter may appear more than once in the checklist). The remainder were not possible to match as the descriptions as per the report from Northgate did not sufficiently match the description on the checklist to enable us to categorically match the two. For the remainder, we obtained screen prints directly from the Northgate software, confirming the rate each parameter had been set at. Subject to confirmation that the two rates listed below are not preset, all parameters on the Uprating checklist have been verified to Northgate as correct.

Carer's Allowance:	£53.90
Carer's Allowance: adult dependency increase for spouse or person looking after children.	£31.70

It should also be noted that BFC exercises the option to not pre set parameters in respect of Disability Living Allowances: Other contributory social security rates and Bereavement rates. These are added in manually as and when they become relevant to a claim.

In respect of War Pensions and associated benefits, BFC has exercised local discretion and disregards all war pensions etc in its Housing and Council Tax Benefit calculations.

*We have not therefore made a recommendation*

## 7. IT security

IT security controls will be reviewed as part of the **Northgate Revenues and Benefits – Post implementation 2010/11 audit.**

## 8. Compliance with GCSx

We obtained from the Council's IT service a list of staff working within the Housing Benefit and Council Tax section with access to GCSx. This was checked to the manual files maintained in the Housing Benefit/Council Tax Benefit section.

Of the 18 officers on the IT list who matched the HB/CT file we noted that the GCSx form has a section for HR to sign off to confirm that they have seen certain documents to confirm identity. These boxes were not completed for any of the 18 officers. Discussion with the Benefits Service Manager, confirmed that this is a template form provided by the DWP and has not been tailored to the procedures in operation at BFC. It is the Benefits Service Manager that checks identity, not HR and therefore these boxes are not applicable. We have therefore suggested that the template is amended to remove these boxes.

Furthermore, all 18 members of staff had mobile devices forms on file and Memorandum Of Understanding (MOU) appendix B forms which were signed and dated. In respect of the MOU appendix A, whilst these were on file for all 18, one form was undated and another had not been signed or dated

Every time a member of staff accesses the DWP database an NHB5 form is completed. A copy of the information requested is then printed and scanned on file before both documents are coded NHB5 on ICLipse. We tested a random sample of 20 NHB5 documents coded NHB5 on ICLipse and found that on each occasion a NHB5 form had been produced. In one instance the form was dated March 2010 whereas the enquiry was in November 2010. Discussion with the Benefits Service Manager identified that for some reason the enquiry is no longer required at the time the NHB5 is raised, but subsequently the same Benefits Officer needs to access the same claimants details, they will do so based on the original NHB5. However, given that eight months had passed since the NHB5 had been generated, it would be preferable for a new form to be generated.

*Two recommendations have been raised. (Section 3, recommendations 5-6).*

## 9. General Ledger reconciliations

The Finance Team should complete the monthly Housing Benefits reconciliations by the last working day of the following month.

It was confirmed during the audit planning stage that the key Benefit reconciliation for general ledger has not been performed.

The reconciliation process was last completed in October 2010 before the closedown on Pericles.

*A recommendation has been raised. (Section 3, recommendation 7).*

## 10. Previously identified weaknesses

Of the one recommendations raised in the last review which has reached its target date this recommendation is considered not applicable.

*"The Benefits Section should ensure invoices are sent to claimants in a timely manner."*

The recommendation concerning debt collection has been superseded by the recommendation raised in this audit concerning debt collection.

REF

## SECTION 3: ACTION PLAN

INDIVIDUAL AUDIT OBJECTIVE AREA							Assurance	
1. Policies and Procedures							Responsibility	Satisfactory
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date	
1	<p>It was noted for three out three applicable internal procedure notes that there was no evidence of the last date of review and the preparer/reviewer.</p> <p>Through examination of the procedures for backdates it was observed that the notes do not address key controls in the review process. Whilst accepted that procedure notes are a work in progress; a recommendation is raised to address the risk of inefficiency or inconsistent working practises being adopted.</p>	<p>Actions are not taken in accordance with the organisations policies and procedures</p> <p>Incorrect policy leads to incorrect payments.</p> <p>Inefficient or inconsistent working practises are adopted.</p>	<p>When procedures are updated to include Northgate processes; all key controls should be documented as per the DWP guidance.</p> <p>Procedure notes should be reviewed periodically by a nominated officer and evidenced by way of signature, date and version number.</p>	2	Agreed.	Benefit Service Manager	30th June 2011	

INDIVIDUAL AUDIT OBJECTIVE AREA						Assurance	
2. Reconciliations for Data Migration.						Limited	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date
2	<p>Whilst discussions with officers confirmed that the process as described for the reconciliation of data transferred from Pericles to Northgate was sound, it is not always clear how the copies of the SQL reports provided to us, relate to the errors reported in the Northgate Dataload report. In addition, we have been provided with a number of spreadsheets produced as part of the migration process. However, our review of these documents identified a number of queries that have been referred back to the Benefits team for further clarification before we are able to provide assurance that the overall transfer of data from Pericles has been accurately to Northgate although testing of individual benefit cases reviewed did not identify any discrepancies..</p>	<p>As the data transferred between the two databases forms the basis of all future calculations of benefit for on going claims, any errors or omissions will impact directly on the accuracy of benefit payments.</p>	<p>Officers should ensure that there is a clear trail from the errors identified in the Northgate Dataload report and areas where they have identified the need for sample checking to be undertaken, and the reports/evidence available to ensure that each case has been investigated and any amendments made.</p> <p>In addition, there should be an overall sign off of the data reconciliation process at a senior level to confirm that the data has been accurately transferred.</p>	1	<p>Agreed. Internal Audit to provide a breakdown of the areas requiring clarification for investigation.</p>	Benefits Service Manager	31 <sup>st</sup> March 2011

INDIVIDUAL AUDIT OBJECTIVE AREA						Assurance	
4. Benefits transactions						Satisfactory	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date
3	Our testing identified 3 out of 5 instances where manual amendments were made to BACS payments prior to the actual payments being made. These manual amendments were noted to all be reductions in the overall total of the BAC's payment. Discussion with officers confirmed that these were due to the need to stop payments being made to claimants whereby a last minute change of circumstances would have lead to them being overpaid if the BAC's payment was processed. Officers confirmed that the BAC's would only ever be reduced by such amendments and never as a way of increasing or adding a payment to the BAC's run. Officers stated that the reason for the need to be able to amend the BAC's payment at this stage was because the process to generate the BAC's takes place overnight, otherwise the system would not be available for users if it.	Unauthorised and inappropriate payments are processed	Benefits should clarify with IT the timing of the amendments to the system versus the cancellation of the BAC's payment in order to ensure that the amendments currently being made to the BAC's is only necessary in very exceptional circumstances.	2	Agreed.	Benefits Service Manager	31 <sup>st</sup> March 2011

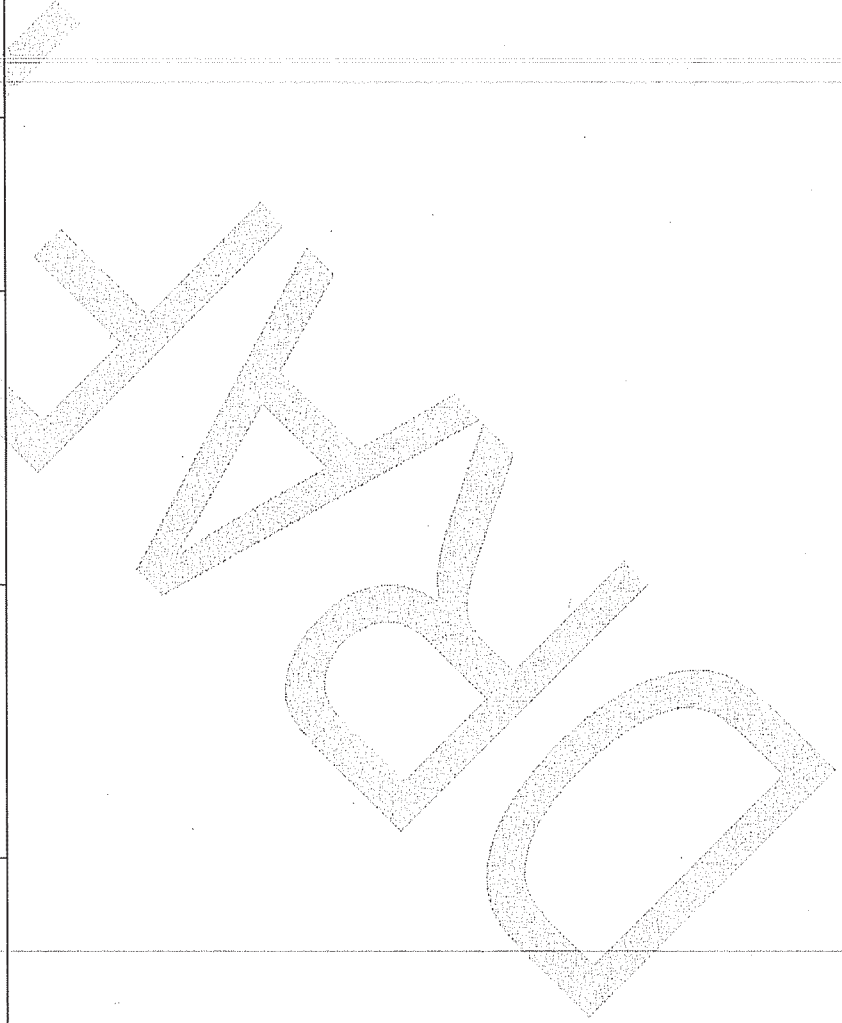
INDIVIDUAL AUDIT OBJECTIVE AREA						Assurance	
4. Benefits transactions						Satisfactory	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date
	<p>was run during the day. However, we understand from IT that it should be possible to make the amendments on the system up to the point the final BAC's payment run is made and for them still to feed through to cancel the BAC's payment. A recommendation has been made that the Benefits section should clarify this with IT in order that the ability to make amendments is only use in very exceptional circumstances.</p>						

INDIVIDUAL AUDIT OBJECTIVE AREA						Assurance	
5. Debt collection						Limited	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date
4	<p>We noted at the audit planning stage that the debtors module for Northgate had yet to go live. Currently, any new debts requiring an invoice are held in a suspense account pending the running of overpayments. Consequentially invoices are not raised and sent to recipients of overpayments. Discussions with the Benefits Service Manager confirmed that in these circumstances claimants have been written to advising them of the overpayment, although a formal invoice will not be raised until the debtors module goes live.</p> <p>In addition, the Benefits Service Manager confirmed that where an existing debt on transfer to Northgate was being recovered by the agreed reduction in benefit payable, these arrangements were continuing.</p> <p>A sample of 20 overpayments was tested and it was noted that in 4</p>	<p>Debt is not collected in a timely manner thereby adversely affecting the Council's cash position.</p>	<p>Ensure that the debtor's module is implemented effectively to ensure that invoices for all new debt occurring post implementation of Northgate are raised as soon as possible.</p>	1	<p>Agreed. Debtors module is to go live by 4<sup>th</sup> March 2011</p>	<p>Benefits Service Manager</p>	<p>4<sup>th</sup> March 2011</p>



INDIVIDUAL AUDIT OBJECTIVE AREA						
5. Debt collection						
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility
	<p>instances an invoice was required but could not be raised due to the Northgate debtors not being fully operational. These 4 overpayments are recorded in the suspense account, 4 are due to be recovered as part of Council tax billing process and the remaining 12 are to be recovered by adjusting the recipients' ongoing entitlement.</p> <p>We understand that although the debtors module is not currently in use, the Benefits team have still been processing write offs on the system. In addition, there are debts that have been showing on Agresso from before Pericles e.g. 1999, which have only recently been approved for write off. We understand from officers that debts raised on Pericles have not been transferred to Northgate as this would feed through to the subsidy calculations making it inaccurate as these Pericles debts have</p>					Assurance Limited

INDIVIDUAL AUDIT OBJECTIVE AREA							Assurance	
5. Debt collection							Limited	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date	
	already been claimed.							



INDIVIDUAL AUDIT OBJECTIVE AREA							Assurance	
8. Compliance with GCSx							Satisfactory	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date	
5	Memorandums of understanding were reviewed for 18 staff. 1 form was undated and 1 had not been signed or dated.	Bracknell Forest Council are disconnected from the Government Connect network.	All Memorandums of understanding should be signed and dated. Care should be taken to ensure that all forms are signed and dated by the officer to whom they relate.	2	Agreed. In addition, officers will be asked to resign the documents on an annual basis as part of the appraisal process (May 2011) to remind them of their responsibilities in respect of GCSx.	Benefits Service Manager	31 <sup>st</sup> March 2011	

INDIVIDUAL AUDIT OBJECTIVE AREA						Assurance	
8. Compliance with GCSx						Satisfactory	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date
6	<p>We tested a random sample of 20 NHB5 documents coded NHB5 on ICLipse and found that on each occasion a NHB5 form had been produced. In one instance the form was dated March 2010 whereas the enquiry was in November 2010. Discussion with the Benefits Service Manager identified that if for some reason the enquiry is no longer required at the time the NHB5 is raised, but subsequently the same Benefits Officer needs to access the same claimants details, they will do so based on the original NHB5. However, given that eight months had passed since the NHB5 had been generated, it would be preferable for a new form to be generated.</p>	<p>Bracknell Forest Council are disconnected from the Government Connect network.</p>	<p>An NHB5 form should be generated every time an enquiry is made. Officers should not rely on an existing form where it has been raised several months prior to the enquiry being made.</p>	2	<p>To be agreed with sign off to this report.</p>	<p>Benefits Service Manager</p>	<p>31<sup>st</sup> March 2011</p>

INDIVIDUAL AUDIT OBJECTIVE AREA							Assurance	
9. General Ledger Reconciliations							Limited	
Ref	Weakness	Risk/Implication	Recommended Actions	Priority	Agreed Management Action	Responsibility	Target date	
7	It was confirmed during the audit planning stage that the key Benefit reconciliation for general ledger has not been performed due to continuing system issues.	Financial data cannot be relied upon Material misstatement in the Councils financial statements.	The reconciliation process should be performed in a timely manner	1	Agreed.	Benefits Service Manager and Head of Finance, ECC	31 <sup>st</sup> March 2011	

**Appendix 1: Staff Interview and Report Distribution**

**Staff Interviewed**

- Shanaz Alam Benefit Service Manager
- Tim Kirby Recovery Officer
- Sharon Okonkwo Senior benefits assessments Officer
- Kevin Fayemi Assessment Officer
- Rosie Corah Benefits Assessment Officer

**Draft Report Distribution**

- Jane Eaton Chief Officer – Performance & Resources
- Shanaz Alam Benefit Service Manager
- Simon Hendey Chief Officer: Housing
- Peter Robinson Head of Finance (EC&C)
- Graham Hyman Senior Fraud Investigator
- Sarah Spearing BFC Contract Manager
- Sally Hendrick Head of Audit & Risk Management
- Chris Herbert Borough Treasurer
- Vince Paliczka Director of Environment Culture and Communities
- Pat Keane CO Information Services.

**Definition of Priority ratings:**

Priority	Definition
1	<b>Priority 1:</b> Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk.
2	<b>Priority 2:</b> Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk.
3	<b>Priority 3:</b> Recommended best practice to improve overall control.

**Housing and Council Tax Benefit part 2 2010/11**

**Agreement of Auditee**

The audit report along with this form should be printed out and signed by the Auditee and then returned to Sarah Spearing, BFC Contract Manager – Audit, at the following address:

Internal Audit, Finance Section,  
3rd Floor  
Easthampstead House  
Town Square  
Bracknell  
RG12 1AQ

**Agreement of Auditee**

I/we have been briefed on the findings of this audit and have had an opportunity to discuss them with the auditor. I/we have agreed the recommendations and included a management response and a timetable for implementation.

Signed ..... Title ..... Date .....

I/we have received a copy of the Quality Questionnaire and have/ have not returned it to the Head of Audit at Bracknell Forest Council

Signed ..... Title ..... Date .....



## Equalities Screening Record Form

Date of Screening: 14 <sup>th</sup> march 2011	Directorate: ECC	Section: Benefits
<b>1. Activity to be assessed</b>	Certification of benefit subsidy claim and internal audit housing and council tax benefit part 2.	
<b>2. What is the activity?</b>	<input type="checkbox"/> Policy/strategy <input type="checkbox"/> Function/procedure <input type="checkbox"/> Project <input checked="" type="checkbox"/> Service <input type="checkbox"/> Organisational change	
<b>3. Is it a new or existing activity?</b>	<input type="checkbox"/> New <input checked="" type="checkbox"/> Existing	
<b>4. Officer responsible for the screening</b>	Shanaz Alam	
<b>5. Who are the members of the EIA team?</b>	Shanaz alam, Rosie Corah	
<b>6. What is the purpose of the activity?</b>	Action plan to respond to audit findings	
<b>7. Who is the activity designed to benefit/target?</b>	All benefit recipients	
<b>8. a Racial equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients
<b>8. b What evidence do you have to support this?</b> E.g equality monitoring data, consultation results, customer satisfaction information etc.		Benefit customers are monitored on a regular basis to assess take up of the benefit services.
<b>9. a Gender equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients.
<b>9. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services
<b>10. a Disability equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients
<b>10. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services
<b>11. a Age equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	. The proposed actions should improve service delivery to all benefit recipients
<b>11. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services
<b>12. a Religion and belief equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients
<b>12. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services

<p><b>13. a Sexual orientation equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.</p>	Y	The proposed actions should improve service delivery to all benefit recipients
<p><b>13. b What evidence do you have to support this?</b></p>		Benefit customers are monitored on a regular basis to assess take up of the benefit services
<p><b>14. Please give details of any other potential impacts on any other group (e.g. those on lower incomes/carer's/ex-offenders) and on promoting good community relations.</b></p>		The nature of the benefit service is that it is targeted at low income and vulnerable households.
<p><b>15. If an adverse/negative impact has been identified can it be justified on grounds of promoting equality of opportunity for one group or for any other reason?</b></p>		The service should generate a positive impact on those households.
<p><b>16. If there is any difference in the impact of the activity when considered for each of the equality groups listed in 8 – 14 above; how significant is the difference in terms of its nature and the number of people likely to be affected?</b></p>	No	
<p><b>17. Could the impact constitute unlawful discrimination in relation to any of the Equality Duties?</b></p>	N	
<p><b>18. What further information or data is required to better understand the impact? Where and how can that information be obtained?</b></p>		Data collection on all equality groups who receive the benefit service will be improved during 2011/12..
<p><b>19. On the basis of sections 7 – 17 above is a full impact assessment required?</b></p>	N	The action plan proposed actions which will improve the general operation of the benefit administration system and there are no specific actions which are directed at any specific group of benefit recipients..
<p><b>20. If a full impact assessment is not required; what actions will you take to reduce or remove any potential differential/adverse impact, to further promote equality of opportunity through this activity or to obtain further information or data? Please complete the action plan in full, adding more rows as needed.</b></p>		
<p><b>Action</b></p>	Timescale	Person Responsible
<p>Improve collection rate of equality monitoring information.</p>	03/2012	Shanaz alam
		Improvement in the percentage
<p><b>21. Which service, business or work plan will these actions be included in?</b></p>		Benefit service plan
<p><b>22. Have any current actions to address issues for any of the groups or examples of good practice been identified as part of the screening?</b></p>		None
<p><b>23. Chief Officers signature.</b></p>	Signature:	Date:
<p><b>24. Which PMR will this screening be reported in?</b></p>		

When complete please send to [abby.thomas@bracknell-forest.gov.uk](mailto:abby.thomas@bracknell-forest.gov.uk) for publication on the Council's website.

## GOVERNANCE AND AUDIT COMMITTEE 22 MARCH 2011

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### INTERNAL AUDIT PLAN 2011/12 Head of Audit and Risk Management

#### 1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to set out the underlying principles applied in the Internal Audit planning process and seek the Governance and Audit Committee's approval of the Internal Audit Plan for 2011/12.

#### 2 RECOMMENDATION

- 2.1 **That the Governance and Audit Committee approve the Internal Audit Plan for 2011/12 attached at Appendix 1.**

#### 3 ADVICE RECEIVED FROM STATUTORY OFFICERS

##### Borough Solicitor

- 3.1 No comments to add.

##### Borough Treasurer

- 3.2 The budget for 2011/12 includes £194,290 for the provision of contracted out internal audit services. This Plan can be met within these resources.

##### Strategic Risk Management

- 3.3 Robust internal audit arrangements are an important part of effective risk management. Audit plans should be targeted to areas of greatest risk to the Council and individual internal audit reviews should focus on controls in place to mitigate risk and highlight any gaps in assurance.

#### 4 SUPPORTING INFORMATION

##### Internal Audit Requirements

- 4.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control." The Council delegates responsibility for the provision of the internal audit service and for ensuring this requirement is met to the Borough Treasurer.

- 4.2 The regulations require conformance with the CIPFA Code of Practice for Internal Audit in Local Government which defines internal audit as follows:-

"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

- 4.3 More specifically, Internal Audit aims to: -
- satisfy the legal requirements of a Local Authority Internal Audit Service, including maintaining an 'adequate and effective' audit of the Council's accounting records and providing an annual opinion on the adequacy of the Council's control environment;
  - examine, evaluate and report independently and objectively on the adequacy of management's arrangements to secure the proper use of resources (economy, efficiency and effectiveness);
  - assist management in achieving its objectives, managing its risks and establishing and maintaining adequate systems of internal control
  - assist management, where appropriate, in the investigation of alleged fraud, theft, corruption or other irregularity; and
  - ensure External Audit can continue to place reliance on Internal Audit's work, to avoid duplication and minimise audit fees.
- 4.4 Internal Audit provides independent assurance on the control environment and acts as a deterrent to would-be fraudsters but for Internal Audit to provide full assurance on all activities and transactions across the organisation, the Council would need to commit significantly more resources to internal audit services than is realistically available. Full assurance could only ever be achieved by checking every transaction and this would not deliver value for money. Internal Audit's work is planned so that Members and Officers can rely on Internal Audit to detect significant control weaknesses for the areas audited and transactions sampled and is hence directed to areas of greatest risk. Whilst Internal Audit reviews alone, although carried out with due professional care, cannot guarantee that frauds will be detected, Internal Audit is only one element of the governance framework which includes for example the Codes of Conduct for Members and Officers, the Whistle Blowing Policy and management actions to ensure effective internal control.

#### Development of the Annual Internal Audit Plan

##### ***Risking Methodology***

- 4.5 Given the finite resources available to spend on internal audit, the Internal Audit Plan is risk driven to ensure that the audit resources available are targeted to focus on those areas of the Council's business that have the greatest influence on the achievement of its objectives. The process for developing the annual Internal Audit Plan starts with a risk based methodology which is used to assess Council activities, assets, and income and expenditure streams by scoring these in terms of the following criteria:
- Materiality ~ based on monetary value as given in budget plans and previous outturn to ensure that the Plan has adequate coverage of areas of high spend and income. The assessment of materiality also takes into account the significance of the activity for the Authority for example where a monetary value cannot be clearly assigned such as corporate governance matters
  - Fraud/Irregularity ~ the potential risk of fraud or irregularity for individual activities for example the risk is higher where the handling of cash is involved and hence a higher score has been assigned to such activities
  - Third Part Sensitivity ~ higher scores have been given to areas on which third parties place reliance. For example, a higher score has been assigned to data quality encompassing performance indicators reported to central government departments

- Internal Control Environment ~assessing the expected robustness of the control environment based on previous audit opinions, local knowledge and feedback from Finance and other officers. Where the control environment has been assessed as weak, a higher score has been assigned.
- Time since the last audit ~ the longer the elapsed time since the last audit, the higher the score given to the activity
- Other Assurance Coverage ~ consideration has been given to whether external inspections or external audits have been completed which would already provide the Council with assurance. Where such assurance is available a lower score has been assigned, for example fixed assets which are subject to detailed audit by the Audit Commission as part of their audit of the financial statements
- The Likely Effectiveness of Audit ~ Given finite resources it is important that audit work focuses on areas where Internal Audit can add value and where greatest assurance can be given and hence higher scores have been given to such areas, for example school audits.

4.6 Following this risk assessment, a number of other factors were considered in producing the detailed Plan and these are summarised below.

***Key Financial Systems***

4.7 Emphasis has been placed on ensuring that there is audit coverage of the key financial systems which are fundamental to financial control at the Council and hence are included in the Internal Audit Plan each year. The 2011/12 Plan includes 132 days on key financial systems representing 22% of the total days in the Plan. These systems provide the underlying data for the annual financial statements audited by our external auditors. The Internal Audit Plan is structured to ensure that the external auditors can place maximum reliance on the work of Internal Audit on the key financial systems thus minimising external audit fees in respect of the accounts.

***Governance***

4.8 The CIPFA Statement on the role of the Head of Internal Audit in public service organisations published in 2010 emphasises the role that the Head of Internal Audit in a public service organisation plays in delivering the organisation's strategic objectives by championing best practice in governance and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control. The CIPFA Statement concludes that the demand for better public services within a complex environment has strengthened the need for effective governance and that Internal Audit is one of the cornerstones of effective governance. Each year, the Annual Plan incorporates aspects of governance arrangements for testing. For example, the 2011/12 Plan includes audits on delegations across all directorates.

***Probity***

4.9 Probity audits provide assurance over the proper administration of the Authority's activities. In drawing up the annual Internal Audit Plan, focus is placed on ensuring there is coverage of areas where in any organisation there is potential risk of abuse for example procurement cards.

***Changes to Regulation, Procedures or IT Systems***

4.10 Internal Audit reviews have been included in the Plan where significant changes to key procedures and processes have been identified or where new IT systems or major upgrades are being implemented. Examples of reviews included for this reason are the audits of free school meals and the update to the Agresso Financial System.

## **Internal Audit Plan 2011/12**

- 4.11 The Internal Audit Plan for 2011/12 is attached at Appendix 1 for the Committee's review and approval.
- 4.12 To enable us to resource the delivery of the Internal Audit Plan for 2011/12, in addition to H W Controls and Assurance who are the Council's internal audit service contractor, it is intended that Reading Internal Audit Services will provide additional support in the delivery of the Plan under S113 of the Local Government Act 1972 which permits local authorities to provide staffing resources to other authorities.

## **5 CONSULTATION**

### Principal Groups Consulted

- 5.1 The Chief Executive, Directors and Chief Officers at the Council, the Council's external auditors and the Council's internal audit services contractors (H W Controls and Assurance).

### Method of Consultation

- 5.2 At the initial drafting stage, discussions were held with the Section 151 Officer and other key officers from the directorates. A meeting was also held with the contractor's Computer Auditor and the Chief Officer: Information Services to discuss the proposed IT audits. The draft Plan was then circulated to the Chief Executive, Assistant Chief Executive, Section 151 Officer and Directors for discussion at their DMTs and comments made on the content of the draft Plan and timing of audits have been taken into account in the Plan attached at Appendix 1.

### Contact for further information

Sally Hendrick – 01344 352092  
sally.hendrick@bracknell-forest.gov.uk

### Doc. Ref

Governance and Audit Committee Report Internal Audit Plan 11-12

## SUMMARY OF ANNUAL INTERNAL AUDIT PLAN 2011/12

AUDIT	DAYS BY QUARTER				TOTAL DAYS
	Q1	Q2	Q3	Q4	
CORPORATE SERVICES	0	23	119	5	147
CHIEF EXECUTIVE'S OFFICE	0	21	0	0	21
ENVIRONMENT CULTURE AND COMMUNITIES	58	30	46	25	159
CHILDREN, YOUNG PEOPLE AND LEARNING	74.5	34	11.5	21	141
ADULT SOCIAL CARE AND HEALTH	28	10	12	20	70
COMPUTER AUDITS	7	13	15	18	53
TOTAL	167.5	131	203.5	89	591

**CORPORATE SERVICES**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
<b>FINANCE</b>	Review and testing of controls over investment of Council's funds.	5	0	0	5	0	✓	✓ Financial and Economic		✓
Treasury Management										
Creditors	Review and testing of controls over authorisation and payment of supplier invoices.	12	0	0	12	0	✓	✓ Financial and Economic		✓
Debtors	Review and testing of controls over the recording, collection and write-off of debts.	12	0	0	12	0	✓	✓ Financial and Economic		✓
Main Accounting (including reconciliations)	Review and testing of controls over general ledger which is the basis for Council's financial reporting and accounts.	15	0	0	15	0	✓	✓ Financial and Economic		
Purchasing and Ordering	Review and testing of controls in place over procuring and ordering.	10	0	0	10	0	✓	✓ Financial and Economic	✓	✓
Payroll and Pre-Employment Checks	Review and testing of controls in place to ensure salaries are accurately paid and only to individuals properly employed by the Council.	15	0	0	15	0	✓	✓ Financial and Economic Staffing		
Procurement Cards	Review and testing of procedures and controls in place over the new procurement cards following wider implementation across the Council.	5	0	0	5	0	✓	✓ Financial and Economic	✓	✓
<b>REVENUES</b>								✓		
Cash Management	Review and testing of controls over the collection, recording	10	0	0	10	0	✓	✓ Financial and Economic		✓



AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	and banking of payments made to the Council including on line, cash, cheque and credit card payments.									
Council Tax	Review and testing of controls in place over calculation, billing and collection of Council Tax.	10	0	0	10	0	✓	✓ Financial and Economic		
NNDR	Review and testing of controls in place over calculation, billing and collection of non-domestic rates.	10	0	0	10	0	✓	✓ Financial and Economic		
<b>GOVERNANCE</b>  Officer Delegations	Audit review to confirm whether delegated authorities have been properly determined, approved, documented and communicated to relevant officers and are updated on a regular basis to ensure that staff changes and amendments to responsibilities are properly reflected.	3	0	3	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	
Officer expenses	Review of effectiveness and compliance with controls over the claiming and payment of expenses	5	0	5	0	0		✓ Financial and Economic Staffing	✓	
<b>GENERAL</b>  <b>FOLLOW UP OF RECOMMENDATIONS</b>	Review of progress on implementation of agreed recommendations in previous audit reports.	5	0	0	5	0				
<b>CONTINGENCY</b>	Contingency days	30	0	15	10	5				
<b>TOTAL</b>		147	0	23	119	5				

**CHIEF EXECUTIVE'S OFFICE**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Data Quality	Review of management information collated and monitored	15	0	15	0	0		✓		
<b>GOVERNANCE</b> Officer Delegations	Audit review to confirm whether delegated authorities have been properly determined, approved, documented and communicated to relevant officers and are updated on a regular basis to ensure that staff changes and amendments to responsibilities are properly reflected.	3	0	3	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	
Officer expenses	Effectiveness and compliance with controls over the claiming and payment of expenses	3	0	3	0	0		✓ Financial and Economic Staffing	✓	
<b>TOTAL</b>		21	0	21	0	0				

## ENVIRONMENT CULTURE AND COMMUNITIES

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
<b>HOUSING</b> Housing & Council Tax Benefits	Follow up of DWP action plan and action plan to address recommendations raised by the Audit Commission in their report "Certification of the Housing Benefit Claim 2009/10". (To be undertaken in second half of June)	3	3	0	0	0	✓	✓ Financial and Economic		✓
Housing & Council Tax Benefits	Spot check testing	15	10	5	0	0	✓	✓ Financial and Economic		✓
Housing & Council Tax Benefits	Audit of controls in place over entitlement, calculation and payment of housing and Council Tax benefits.	15	0	0	15	0	✓	✓ Financial and Economic		✓
<i>Housing Rents/Deposits (audit in-house)</i>	Follow up of actions identified by 2010/11 internal audit review	5	5	0	0	0		✓ Financial and Economic		✓
Housing	Audit of procedures for ensuring that the Council meets its housing responsibilities. This will include audit of controls over the housing register application, verification and nomination processes and effectiveness and compliance with controls over procedures for responding to homelessness.	15	15	0	0	0		✓ Demands for Services		✓
Housing	Audit of procedures and controls in place over BFC My Homebuy, the Council Mortgage Scheme and the Cash Incentive Scheme.	10	0	10	0	0		✓ Demands for Services		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
								Financial and Economic		
<b>PLANNING AND TRANSPORT</b> Building control and land charges	Review of the effectiveness and compliance with procedures and controls for ensuring that income is properly charged and collected on a timely basis.	5	5	0	0	0		✓ Financial and Economic		✓
Development Management - planning	Review of the effectiveness and compliance with procedures and controls for ensuring that income is properly charged and collected on a timely basis.	5	5	0	0	0		✓ Financial and Economic		✓
<b>ENVIRONMENT AND PUBLIC PROTECTION</b> Waste Collection	Review of effectiveness and compliance with controls under the new waste collection contract for ensuring that the Council is charged in accordance with the contract, payments are properly authorised and monitoring performance.	7	0	0	0	7		✓ Financial and Economic		
<b>LEISURE AND CULTURE</b> South Hill Park	Procedures and controls in place to determine level of capital for the ground restoration project and revenue funding and monitor that expenditure is in accordance with the agreements with the Trust and Heritage	5	0	5	0	0		✓ Financial and Economic		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	Lottery Fund.									
Easthampstead Conference Centre	This review will focus across the Centre on controls over the incurring of and payment of expenditure in line with Council regulations and the approval (including through imprest and petty cash) and identification, billing, recording and collection of income.	10	10	0	0	0		✓ Financial and Economic		✓
Downshire Golf Club	Procedures and controls in place for the collection of income, petty cash, imprests, inventory, fixed assets and incurring and approval of expenditure.	7	0	7	0	0		✓ Financial and Economic		✓
Bracknell Sports and Leisure Centre	Procedures and controls in place for the collection of income, petty cash, imprests, inventory, fixed assets and incurring and approval of expenditure.	7	0	0	7	0		✓ Financial and Economic		✓
Libraries	Two site visits to review local processes including those over ordering, receipting and recording, budget monitoring, income, petty cash and inventory controls.	6	0	0	6	0		✓ Financial and Economic		✓
Cash Spot checks	Probity checks at a sample of leisure sites	3	0	0	0	3		✓ Financial and Economic		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
<b>PERFORM. AND RESOURCES</b>  Purchasing and ordering	Controls in place over procuring and ordering.	10	0	0	0	10		✓ Financial and Economic	✓	✓
<b>GOVERNANCE</b>  Officer Delegations	Audit review to confirm whether delegated authorities have been properly determined, approved, documented and communicated to relevant officers and are updated on a regular basis to ensure that staff changes and amendments to responsibilities are properly reflected.	3	0	3	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	✓
Officer expenses	Effectiveness and compliance with controls over the claiming and payment of expenses	5	5	0	0	0		✓ Financial and Economic Staffing	✓	✓
<b>COUNCIL WIDE AUDITS (CMT)</b>  S106 Agreements	Review of effectiveness and compliance with controls in place to ensure that monies as agreed under S106 agreements are received when due, properly recorded and expended in accordance with the terms of the agreement within timescales set out in the agreements and also accordance with any specific conditions.	18	0	0	18	0		✓ Financial and Economic  Litigation and Legislation		
<b>GENERAL</b>  <b>FOLLOW UP OF RECOMMENDATIONS</b>	Review of progress on implementation of agreed	5	0	0	0	5				

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	recommendations in previous audit reports.									
<b>TOTAL</b>		159	58	30	46	25				

**CHILDREN, YOUNG PEOPLE AND LEARNING**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
<b>SCHOOLS</b> Free School Meals	Review of controls in place over new centralised arrangements for assessing entitlement and approving free school meals. The review will include compliance with controls for accessing DWP records.	7	0	0	0	7		✓ Financial and Economic		✓
<i>Wildmoor Heath School (audit in-house)</i>	Follow up due to limited assurance conclusion in 2009/10	2	0	0	0	2		✓ Financial and Economic  Staffing		✓
Easthampstead Park School (Secondary)	Review of key budgetary and financial controls and pre-employment checks.	5	0	0	5	0		✓ Financial and Economic  Staffing		✓
Birch Hill Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	0	0	0	3.5		✓ Financial and Economic  Staffing		✓
Ascot Heath CE Junior School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓



AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
College Town Infant and Nursery School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓
College Town Junior School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓
Fox Hill Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓
Holly Spring Junior School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓
New Scotland Hill Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓
Owlsmoor Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
St. Joseph's Catholic Voluntary Aided School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic Staffing		✓
St. Michael's CE Voluntary Aided School (Sandhurst)	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic Staffing		✓
Warfield Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic Staffing		✓
Binfield C E Primary School (Aided)	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic Staffing		✓
Harmans Water Primary School	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic Staffing		✓
St Michael's Easthampstead CE Voluntary Aided	Review of key budgetary and financial controls and pre-employment checks.	3.5	0	0	3.5	0		✓ Financial and Economic		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Primary School								Staffing		
<i>Crown Wood Primary School (audit in-house)</i>	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0		✓ Financial and Economic  Staffing	✓	
Jennett's Park School	Advice to Head Teacher on key budgetary and financial controls and pre-employment checks	2	1	1	0	0		✓ Financial and Economic  Staffing	✓	
Jennett's Park School	Review of key budgetary and financial controls and pre-employment checks.	3.5	0	0	0	3.5		✓ Financial and Economic  Staffing	✓	
Off -site activities	Follow up 2010/11 audit which concluded limited assurance	3	0	0	3	0		✓ Financial and Economic  Litigation and Legislation	✓	
Education Library Service	Review of procedures and controls in place over the Education Library service which the Council is the lead authority on for the local area. The audit will review controls over the purchase of library stock, income and	6	6	0	0	0		✓ Financial and Economic		

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	staff costs.									
<b>CHILDREN'S SOCIAL CARE</b>  Larchwood	Establishment visit to review controls including those over income, expenditure, staff costs, imprests, client monies and stock.	7	7	0	0	0		✓ Financial and Economic  Staffing	✓	
Youth Offending Service	Review of procedures and controls in place over income, expenditure and imprests.	4	0	4	0	0		✓ Financial and Economic	✓	
<b>PERFORMANCE AND RESOURCES</b> <i>Sandhurst Youth Centre (audit in-house)</i>	Follow up of 2010/11 audit	4	4	0	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	
Youth Centres	Two further establishment visits to review controls including those over income, expenditure, imprests and inventories.	8	0	8	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	
Planned maintenance and capital projects	Audit of governance arrangements, budget setting and monitoring controls for planned maintenance and capital projects	10	0	10	0	0		✓ Financial and Economic  Demands for services  Litigation and	✓	

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
								Legislation  Major Programmes and Projects  Infrastructure and Maintenance of Assets		
YPLA Grant Return	Sample testing to support the YPLA Grant return	6	6	0	0	0		✓ Financial and Economic  Litigation and Legislation		✓
Purchasing and ordering	Controls in place over procuring and ordering.	8	0	8	0	0		✓ Financial and Economic	✓	✓
<b>GOVERNANCE</b> Officer Delegations	Audit review to confirm whether delegated authorities have been properly determined, approved, documented and communicated to relevant officers and are updated on a regular basis to ensure that staff changes and amendments to	3	0	3	0	0		✓ Financial and Economic  Staffing  Litigation and Legislation	✓	✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	responsibilities are properly reflected.									
Officer expenses	Effectiveness and compliance with controls over the claiming and payment of expenses	5	5	0	0	0		✓ Financial and Economic Staffing	✓	
<b>GENERAL</b>		5	0	0	0	5				
<b>FOLLOW UP OF RECOMMENDATIONS</b>	Review of progress on implementation of agreed recommendations in previous audit reports.									
<b>TOTAL</b>		141	74.5	34	11.5	21				

**ADULT SOCIAL CARE AND HEALTH**

115

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
<b>ADULTS AND COMMISSIONING</b>  Personal Budgets	Review of effectiveness and compliance with controls in place over eligibility, approval, allocation and payment of personal budgets across Adult Social Care and Health. The review will cover setting boundaries for the flexibility of use of budgets, processes for assessing risk, determining the appropriate levels of monitoring of individual cases and recipients accountability for how monies are spent.	15	0	0	0	15		✓ Financial and Economic  Demands for services		✓
Shared Budgets	Review of controls over pooled budgets for equipment and intermediate care	5	0	0	5	0		✓ Financial and Economic  Demands for services		✓
<b>OLDER PEOPLE AND LONG TERM CONDITIONS</b> Heathlands - residential and day care centre	Establishment visits to review controls including those over income, expenditure, staff costs, imprests, client monies and stock.	10	10	0	0	0		✓ Financial and Economic  Staffing  Demands for services		✓

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Ladybank	Establishment visit to review controls including those over income, expenditure, staff costs, imprests, client monies and stock.	5	5	0	0	0		✓ Financial and Economic  Staffing  Demands for services		✓
Drug and Alcohol Team	Review of effectiveness and compliance with controls for recording funding received, commissioning services, monitoring performance and making payments.	5	0	5	0	0		✓ Financial and Economic  Demands for services		
<b>LEARNING DISABILITY</b> Learning Disability Provider Service	Establishment visits to the learning disability provider service to review controls including those over income, expenditure, staff costs, imprests, client monies and stock. The review will cover Waymead, Breakthrough and Headspace.	10	10	0	0	0		✓ Financial and Economic  Staffing  Demands for services		✓
<b>PERFORMANCE AND RESOURCES</b> CONTROCC	Review of effectiveness and compliance with controls over payments made via CONTRACC. The review will take place after e payments has been introduced.	7	0	0	7	0	✓	✓ Financial and Economic		✓
<b>GOVERNANCE</b>	Audit review to confirm whether delegated authorities have been	3	3	0	0	0		✓ Financial and	✓	✓



AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Officer Delegations	properly determined, approved, documented and communicated to relevant officers and are updated on a regular basis to ensure that staff changes and amendments to responsibilities are properly reflected.						Economic Staffing Litigation and Legislation			
Officer expenses	Effectiveness and compliance with controls over the claiming and payment of expenses	5	0	5	0	0	✓ Financial and Economic Staffing	✓	✓	
<b>GENERAL</b> <b>FOLLOW UP OF RECOMMENDATIONS</b>	Review of progress on implementation of agreed recommendations in previous audit reports.	5	0	0	0	5				
<b>TOTAL</b>		<b>70</b>	<b>28</b>	<b>10</b>	<b>12</b>	<b>20</b>				

**COMPUTER AUDITS  
SUMMARY OF COMPUTER AUDIT DAYS**

AUDIT	DAYS BY QUARTER				TOTAL DAYS
	Q1	Q2	Q3	Q4	
CORPORATE SERVICES	7	13	5	13	38
CHIEF EXECUTIVE'S OFFICE	0	0	0	0	0
ENVIRONMENT CULTURE AND COMMUNITIES	0	0	5	0	5
ADULT SOCIAL CARE AND HEALTH	0	0	0	5	5
CHILDREN, YOUNG PEOPLE AND LEARNING	0	0	5	0	5
TOTAL	7	13	15	18	53

CORPORATE SERVICES										
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY IT SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Agresso	Audit of the upgrade of the existing Agresso financial system from Version 5.4 to Version 5.5.	5	0	0	0	5	✓	✓ Financial and Economic  Information Management and Services		
Change Management	Review of the design and effectiveness of controls in place for the IT change management process.	7	7	0	0	0		✓ Information Management and Services		
Desktop Virtualisation - Thin Client project	Audit of the Thin Client project to refresh 532 desk tops covering both the corporate network and the Library public network estate during the 2011/2012 by delivering a remote "Windows PC" experience on legacy and non-PC devices. The audit will include review of arrangements to ensure adequacy of service processing power and bandwidth.	8	0	0	0	8		✓ Information Management and Services		
IP Telephony (IPT) Platform	Review of access and security controls and arrangements for ensuring capacity requirements are met for the IP Telephony network	8	0	8	0	0		✓ Information Management and Services		
Compliance with PCI Data Security Standards	The process for ensuring the Council complies with the requirements of the Payment Card Industry Data Security Standards relating to the collection and processing of customer credit and debit	5	0	0	5	0		✓ Financial and Economic		

CORPORATE SERVICES										
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY IT SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
	card details.							Information Management and Services		
IT Follow-Up	Follow up of recommendation raised in previous IT audit reports.	5	0	5	0	0		✓ Information Management and Services		
<b>TOTAL</b>		38	7	13	5	13				

ENVIRONMENT CULTURE AND COMMUNITIES										
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY IT SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
BACAS system	IT Application controls review of the system used at the cemetery and crematorium. The audit will assess the adequacy and effectiveness of internal controls in operation over access, data input and processing, output, interface, audit trail and arrangements for backup and recovery.	5	0	0	5	0	✓	✓ Information Management and Services		
<b>TOTAL</b>		5	0	0	5	0				

CHILDREN YOUNG PEOPLE AND LEARNING										
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY IT SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Capita ONE (EMS)	Audit of migration of the ONE (Education Management system) software from its existing Powerbuilder environment to the industry standard Dot Net (.net) technology including infrastructure requirements.	5	0	0	5	0	✓	✓ Information Management and Services		
<b>TOTAL</b>		5	0	0	5	0				

ADULT SOCIAL CARE AND HEALTH										
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY IT SYSTEM	LINK TO STRATEGIC RISKS	LINK GOVERNANCE ARRANGEMENTS	PROBITY
			Q1	Q2	Q3	Q4				
Integrated Adults System - (Controcc)	Audit of IT controls over the Controcc software within IAS used for financial payments and personal budgets. The audit will assess the adequacy and effectiveness of internal controls in operation over access, data input and processing, output, interface, audit trail and arrangements for backup and recovery.	5	0	0	0	5	✓	✓ Information Management and Services		
<b>TOTAL</b>		5	0	0	0	5				

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**GOVERNANCE AND AUDIT COMMITTEE  
22 MARCH 2011**

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**TOWN CENTRE LAND DISPOSALS  
Director of Corporate Services – Legal**

**1 PURPOSE OF DECISION**

- 1.1 This report proposes a minor amendment to the Constitution to permit the Bracknell Town Centre Regeneration Committee to approve the disposal of land required in connection with the re-development of Bracknell Town Centre.

**2 RECOMMENDATION**

- 2.1 That Section 5.5 of Part 2 of the Council's Constitution be amended as proposed in Section 4 of this report.**

**3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 3.1 The Borough Solicitor is the author of this report.

Borough Treasurer

- 3.2 There are no financial implications directly arising.

Equalities Impact Assessments

- 3.3 Not relevant.

Strategic Risk Management Issues

- 3.4 Not relevant.

**4 SUPPORTING INFORMATION**

- 4.1 Section 5.5 of Part 2 of the Council's Constitution (Sub-delegation of Executive functions) requires that the disposal of land over 0.5 hectares or above £500,000 be authorised at a meeting of the Executive (unless certified to be a matter of overriding urgency by both the Leader and the Chief Executive in which case authorisation may be granted by an Executive Member).

- 4.2 The Bracknell Town Centre Regeneration Committee is charged with discharging Executive functions relating to the proposed re-development of Bracknell Town Centre. The terms of reference of the Committee include the following:-

“Formulation of the Council's property strategy within Bracknell Town Centre including dealings with existing landowners.....”

- 4.3 Notwithstanding the foregoing, proposed land disposals in excess of 0.5 hectares must be approved by the full Executive even though they may be required in connection with Town Centre re-development. In practice this means that proposed disposals are considered both by the Committee and the Executive, a process which is unnecessarily bureaucratic.
- 4.4 It is therefore proposed that the Council's Constitution be amended to provide that land disposals in excess of 0.5 hectares required in connection with the re-development of Bracknell Town Centre may be approved by the Committee.

Background Papers

None.

Contact for Further Information

Alex Jack, Borough Solicitor (01344) 355679

[Alex.jack@bracknell-forest.gov.uk](mailto:Alex.jack@bracknell-forest.gov.uk)

Doc Ref:

Aj/f/reports/Governance and Audit Committee – 22<sup>nd</sup> March – Town Centre Land Disposals

GOVERNANCE AND AUDIT COMMITTEE  
22 MARCH 2011

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**AMENDMENTS TO THE COUNCIL'S CONSTITUTION**  
**Director of Corporate Services – Legal**

**1 PURPOSE OF DECISION**

- 1.1 This report seeks approval to amendments to the Council's Constitution which are proposed as a result of the recent introduction of the Regulatory Enforcement and Sanctions Act 2008 and the requirements of the Council to become the primary authority under the act.

**2 RECOMMENDATION**

- 2.1 **That Part 2 Table 1 General Powers of the Director of Environment, Culture and Communities be amended at paragraph 1.11 to add the general duties under the Regulatory Enforcement and Sanctions Act 2008 be one of his general functions.**

**3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 3.1 The Borough Solicitor is the author of this report.

Borough Treasurer

- 3.2 There are no financial implications directly arising save that after 10 hours of Primary Authority work the Council is entitled to charge under Section 31 of the Act. The legislation will generate a level of income for the Council.

Equalities Impact Assessment

- 3.3 Not relevant.

Strategic Risk Management Issues

- 3.4 Not relevant.

**4 SUPPORTING INFORMATION**

- 4.1 A primary authority under Section 25 of the Act provides the single point of contact for all local regulators, and uses its in-depth understanding of the partner business to resolve issues more efficiently and ensure consistency.
- 4.2 Regardless of its size, a business operating across Council boundaries can form a primary authority partnership with a single local authority in relation to regulatory compliance. These partnerships can cover all environmental health and trading standards legislation, or specific functions such as food safety or petroleum licensing.
- 4.3 The companies likely to be captured by these provisions are:-

- Waitrose
- Panasonic
- Dell
- Hewlett Packard
- MCM Select Foods
- Anglo European Trading

- 4.4 By working closely with the business a primary authority can apply regulations to their specific circumstances providing robust and reliable advice. This advice must be respected by all local regulators enabling the business to operate with assurance and confidence.
- 4.5 A national inspection plan can be produced by the Primary Authority to improve the effectiveness of inspection, avoid repeated checks, and enable better sharing of information.
- 4.6 If a problem arises, the primary authority can co-ordinate enforcement action to ensure that the business is treated consistently and that responses are proportionate to the issue.
- 4.7 A business can choose what level of support it requires from the Primary Authority. The question of resource in the partnership is up to the Council and businesses concerned. Where necessary the Primary Authority can recover its costs other than the first 10 hours per annum which are not rechargeable.

#### **The benefits for businesses which are not rechargeable.**

- 4.8 Primary authority delivers confidence to invest and grow. Businesses have access to a stable source of information that draws on a detailed understanding of their operations, prevents inconsistent interpretation of regulations, and applies regardless of where stores, factories or offices are based or products are sold.
- 4.9 Where businesses seek to confirm that their existing procedures accord with the rules or simply want to know what to do to comply, tailored advice is available from their primary authority – with the assurance that it is respected by all local regulators.
- 4.10 By assessing the feedback from inspections conducted across the UK, primary authorities can provide other Councils with evidence of compliance and recommendations about how best to tackle broad issues quickly and effectively at a local level. Both aspects serve to drive down costs for businesses in partnerships.

#### **Benefits for Local Authorities**

- 4.11 Primary authority is a means of helping businesses prosper without compromising consumer protection from harm and fraud, by working with those that appreciate the value of the advice they receive. Local authorities willing to deliver tailored expertise can expect to see increased investment and employment within their local communities. As partnerships are established, Councils also gain from access to better intelligence.
- 4.12 The flexibility to adapt to local circumstances must be retained, eliminating inconsistent interpretation serves to enhance the credibility of all local regulators, as well as preventing unfair variations in the level of protection that the public receives.

This supports the creation of a level commercial playing field, giving businesses more confidence to invest and grow within the Borough.

Background Papers

Sections 25 – 31 of the Regulatory Enforcement and Sanctions Act 2008.

Contact for Further Information

Simon Bull – Assistant Borough Solicitor – (01344) 353097

Simon.bull@bracknell-forest.gov.uk

Doc Ref:

Sb/f/agreements/Governance and Audit Committee – March 2011  
Amendments to the Council's Constitution

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## GOVERNANCE AND AUDIT COMMITTEE 22 MARCH 2011

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### ANTI MONEY LAUNDERING POLICY Borough Treasurer

#### **1 PURPOSE OF DECISION**

- 1.1 To approve the Council's Anti Money Laundering Policy and to agree steps to implement the policy.

#### **2 RECOMMENDATION(S)**

- 2.1 **Approve the Council's Anti Money laundering policy set out in Appendix A and agree the steps to be taken to implement the policy.**
- 2.2 **That the Borough Treasurer is nominated as the Money Laundering Reporting Officer**

#### **3 REASONS FOR RECOMMENDATION(S)**

- 3.1 Money laundering is any attempt to use the proceeds of crime for legitimate purposes. Although Public authorities are not legally obliged to implement the provisions of the Money Laundering Regulations 2007, the Council and its individual Members and employees have legal obligations relating to money laundering. It is recommended by CIPFA that as a responsible public body, the Council should have an approved anti money laundering policy. However it advises Councils that this should be appropriate and proportionate for the protection of its staff and Members.

#### **4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None

#### **5 SUPPORTING INFORMATION**

- 5.1 Money laundering is any action taken to conceal, arrange, use or possess the proceeds of any criminal conduct. Criminals try to launder 'dirty money' in an attempt to make it look 'clean' in order to be able to use the proceeds without detection and to put them beyond the reach of law enforcement and taxation agencies.
- 5.2 The legal and regulatory framework for the UK's anti-terrorist financing and anti money laundering arrangements comprises:
- The Terrorism Act 2000 (TA) as amended by the Anti Terrorism Crime and Security Act 2001 and the Terrorism Act 2006;
  - The Proceeds of Crime Act 2002 (POCA) as amended by The Serious Organised Crime and Police Act 2005; and
  - The Money Laundering Regulations 2007 (MLR).
- 5.3 All individuals have obligations under these acts relating to money laundering. Potentially any one could be caught by the money laundering provisions if they

suspect money laundering and either become involved with it in some way and/or do nothing about it.

- 5.4 The Council is not legally obliged to apply the provisions of the MLR 2007 because public authorities are neither 'relevant persons' (as defined in the MLR) nor part of the 'regulated sector' (as defined in POCA 2002). However, as a prudent and responsible public body, the Council's policy and procedures should be designed to reflect the essence of the UK's anti-terrorist financing and anti money laundering regimes.

#### Main Considerations

- 5.5 CIPFA have provided guidance and interpretation of the legislation as it relates to Local Authorities in its publication Combating Financial Crime Further Guidance On Anti-Money Laundering (2009).
- 5.6 Although the Council's risk of exposure to money laundering is relatively low and some of the provisions of the legal and regulatory framework do not apply, there is a reputational risk for any authority that does not have adequate policies and procedures in place. CIPFA's advice is that "public service organisations, including those outside the scope of the regulations, should put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements, designed to enable them to detect and avoid involvement in the crimes described in the legislation and regulations".
- 5.7 The risk is not only reputational. There is also a risk that individuals who, in the course of Council business, become aware that criminal property or funds could be involved may commit offences if a reasonable suspicion is not reported.
- 5.9 It is therefore important that appropriate and proportionate arrangements are established to ensure that the Council, its staff and Members are protected as far as practicable, notably by having in place a reporting mechanism, arrangements for publicising the responsibilities of individuals and provisions for appropriate training and education. The draft policy drawn up in accordance with CIPFA's guidance is attached as Appendix A.

#### Steps to Implement the Policy

- 5.10 The policy once approved will be made available to all staff and Members on the Intranet along with further practical guidance. This guidance will include examples of Money Laundering.
- 5.11 For the purposes of the policy, the Borough Treasurer has been nominated as the Money Laundering Reporting Officer to whom suspicions should be reported in the first instance and who will determine the need for internal investigation, in consultation with the Chief Executive and/or the Borough Solicitor. Depending on the result of that investigation the Borough Treasurer will arrange for a report to be submitted to the National Criminal Intelligence Service.
- 5.11 The Staff most likely to be exposed to or suspicious of money laundering will receive proportionate awareness training mainly delivered through the use of the intranet. This staff will include those who potentially could receive individual cash payments of over £1000, those who initiate or authorise refund from overpayment to the Council or those involved in the management and operation of the Councils Investments and Deposits (Treasury Management).



## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

6.1 Nothing to add to the report

### Borough Treasurer

6.2 Nothing to add to the report

### Equalities Impact Assessment

6.3 Equalities Impact Assessment form attached at Appendix B

### Strategic Risk Management Issues

6.4 There are no major risks to the Council as it is advisory and not mandatory that an anti-money laundering policy is adopted by the Council.

## **7 CONSULTATION**

### Principal Groups Consulted

7.1 None

### Method of Consultation

7.2 None

### Representations Received

7.3 None

### Background Papers

CIPFA – Combating Financial Crime – Further Guidance on Anti Money Laundering (2009)

### Contact for further information

Chris Herbert - 01344 355694

Chris.herbert@bracknell-forest.gov.uk

### Doc. Ref

executive-report-template (November 2008)

## THE MONEY LAUNDERING POLICY

### 1. Introduction

- 1.1 Bracknell Forest Borough Council, "the Council" takes a zero- tolerance approach to fraud and corruption and as such will be taking a proactive approach to the prevention, detection and reporting of suspected money laundering incidents.
- 1.2 This Anti-Money Laundering Policy sets out the Council's commitment to ensuring compliance with the requirements of the Proceeds of Crime Act 2002, the Money Laundering Regulations 2007 and Chartered Institute of Public Finance and Accountancy (CIPFA) guidance for Local Authorities on Money Laundering.

### 2. Scope

- 2.1 The policy applies to:
  - All Council staff (permanent and temporary, including staff working within schools)
  - Elected members
  - Agency staff
  - Consultants
- 2.2 The policy sits alongside the Council's Employee Code of Conduct and the Anti-Fraud and Corruption Policy.

### 3. Definition

- 3.1 Money Laundering is defined as:
  - The process by which the proceeds of crime are; concealed, disguised, converted, transferred or removed from England, Wales, Scotland or Northern Ireland.
  - Being involved in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property.
  - Acquiring, using or possessing criminal property.
- 3.2 There are also secondary offences of:
  - Failure to disclose money laundering offences.
  - Tipping off a suspect, either directly or indirectly.
  - Prejudicing an investigation.

### 4. Requirements of Money Laundering Legislation

- 4.1 The CIPFA Guidance for Local Authorities on Money Laundering makes clear that Local Authorities are not obliged to comply with the requirements of the Money Laundering Regulations 2007. However the guidance does recommend that public service organisations should embrace the underlying principles of the money laundering legislation and regulations.
- 4.2 The Council is therefore required to produce its own internal policies and procedures to prevent, detect and report suspicions of money laundering activities.

4.3 The Council will ensure that it adheres to the CIPFA Money Laundering Guidance for Local Authorities. In particular:

- Ensuring that employees who are most likely to be exposed to or suspicious of money laundering are aware of the requirements and obligations placed on the Council and on them as individuals.
- Providing targeted training for those staff considered to be most likely to encounter money laundering.
- Make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports where necessary to NCIS.
- Establish internal procedures to help forestall and prevent money laundering.

## 5. Reporting of Money Laundering Concerns

5.1 The Council has nominated the Borough Treasurer as the main point of contact for money laundering issues and to act as the nominated Money Laundering Reporting Officer. Staff should report any suspicions to the Borough Treasurer immediately they arise.

5.2 Suspicions may be reported informally by telephone or email and the responsible officer will seek to establish the facts of the case and determine whether a formal referral to the National Criminal Intelligence Service (NCIS) is appropriate.

5.3 Once the suspicions have been reported to the Borough Treasurer then the person who has reported this must not make any further enquiries nor talk to other staff about the matter in case they alert the person(s) involved. In this respect it is important that they do not expose themselves to any of the secondary offences e.g. indirectly 'tipping off' the suspect(s). Their obligations under the relevant legislation in relation to anti money laundering will have been met in full by reporting the matter to the Borough Treasurer.

5.4 The Money Laundering Reporting Officer, or their delegated officer, will consult with staff as appropriate in order to investigate the matter.

## 6. Review of Policy

6.1 This policy will be subject to regular review and approval by the Governance and Audit Committee.

## Equality Impact Assessment Record

### EIA Guidance

Please ensure that you have read the Council's EIA Guidance booklet, available on Boris, before starting work on your EIA, it should be read in conjunction with this form. If anything is unclear please contact your departmental equality representative listed below. This form is designed to summarise the findings of your EIA. **Please also keep a record of your other discussions in producing the impact assessment.**

### Drafting your EIA

The boxes in this form are designed to expand please ensure that you add data, consultation results and other information to back up any assertions that you make. A draft of this record form must be sent to the Councils Equality Officer Abby Thomas and your departmental equality representative(s) (listed below) who will send you comments on it before it is finalised and signed off by your Chief Officer. This step is important to check the quality and consistency of EIAs across the Council.

### Departmental Equality Representatives

ECC Jane Eaton  
CS Abby Thomas

SCL Graham Symonds and Ilona Cowe  
CXO Stephanie Boodhna

### Publishing

The Council is legally required to publish this EIA record form on the Councils website. Please send a copy of the final version of the EIA record form to the Councils Equality Officer Abby Thomas to publish.

<b>Date of EIA</b>	14 February 2011	<b>EIA Guidance Page Ref.</b>
<b>Directorate</b>	Corporate Services	
<b>Part One - Initial Screening Record</b>		
<b>1. Activity to be assessed</b>	Anti-Money Laundering Policy	<b>See Pages 9 - 10</b>
<b>2. What is the activity?</b>	<input type="checkbox"/> Policy/strategy	
<b>3. Is it a new or existing activity?</b>	<input type="checkbox"/> New	
<b>4. Who are the members of the EIA team?</b>	Chris Herbert, Borough Treasurer	
<b>5. Initial screening assessment.</b>  If the answer to either of these questions is 'yes' then it is necessary to go ahead with a full Equality Impact Assessment.	<p>1. Does the activity have the potential to cause adverse impact or discriminate against different groups in the Councils workforce or the community?</p> <p style="background-color: #cccccc;">No as the relevant acts and guidance on anti-money laundering are applicable to all.</p> <p>2. Does the activity make a positive contribution to equalities?</p> <p style="background-color: #cccccc;">No, as above.</p>	
<b>6. Did Part 1: Initial Screening indicate that a full EIA was necessary?</b>	<input type="checkbox"/> No – full EIA not completed record ends here, please ensure this record is signed by the Chief Officer in box 19 overleaf and then email to <a href="mailto:abby.thomas@bracknell-forest.gov.uk">abby.thomas@bracknell-forest.gov.uk</a>	

**GOVERNANCE AND AUDIT COMMITTEE  
22 MARCH 2011**

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**STATEMENT OF THE ACCOUNTS 2010/11 - REVISED ACCOUNTING POLICIES  
Borough Treasurer**

**1 PURPOSE OF DECISION**

- 1.1 Councils are required to prepare their 2010/11 accounts based on International Financial Reporting Standards (IFRS), as interpreted for local authorities in the Code of Practice on Local Authority Accounting 2010/11 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Previously the accounts were based on UK Generally Accepted Accounting Practice (GAAP) as interpreted in the Statement of Recommended Practice (the SORP).
- 1.2 The transition from accounts based on the SORP to those based on the Code has required significant changes to the Council's Accounting Policies which are presented to the Committee in this report for approval.

**2 RECOMMENDATION**

**That the Committee:**

- 2.1 **Approves the revised Accounting Policies attached at Annexe A.**

**3 REASONS FOR RECOMMENDATIONS**

**There have been significant changes to the Accounting Policies that will be applied to the production of the Statement of the Accounts for 2010/11. These therefore require approval by the Council (or Committee of the Council) before the production of the accounts commences.**

**4 ALTERNATIVE OPTIONS CONSIDERED**

Not applicable.

**5 SUPPORTING INFORMATION**

**Reasons for the change**

- 5.1 The Chancellor's 2007 Budget announcement introduced IFRS based financial reporting for the public sector from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health were required to adopt IFRS for the production of their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from 2010/11 (with comparatives for 2009/10).
- 5.2 The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

- 5.3 The private sector has been using IFRS since 2005 and the Government decided that the annual financial statements of Government Departments and other public sector bodies will in future be prepared using IFRS, adapted as necessary, for the public sector.

### **Main changes to the Accounting Policies**

- 5.4 The first time adoption of IFRS has resulted in a significant change in accounting policies in some key areas. The revised accounting policies are attached as Annexe A and the main changes are summarised below.

#### Prior Period Adjustments

- 5.5 Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Previously only fundamental errors (one that is of such significance as to destroy the validity of the financial statements) required adjustment. This will make it much more likely that prior period adjustments will be required. Where an adjustment is required, three balance sheets will now need to be included in the accounts. For example, for 2010/11 balance sheets will be required for 2008/09, 2009/10 and 2010/11.

#### Investment Property

- 5.6 Investment property is now specifically defined to refer to land and buildings held solely to earn rentals and/or for capital appreciation. Investment properties will also, in future, be shown as a separate category of asset on the Balance Sheet. Any changes to the value of investment properties will also need to be recognised through the Comprehensive Income and Expenditure Statement rather than initially through the Revaluation Reserve.

#### Non-current Assets Held For Sale

- 5.7 A non-current asset held for sale is an asset where there is an expectation that the amount included in the Balance Sheet will be recovered through a sale transaction within the next 12 months rather than through the continuing use of the asset. Strict criteria apply before an asset can be classified as held for sale and Investment Property are excluded. If the criteria are met, this classification would apply to any land or building asset which was not previously designated an investment property. Under the code non-current assets held for sale are shown separately on the Balance Sheet within current assets.

#### Lease Classification

- 5.8 Leases will still need to be classified as either finance leases or operating leases. Previously the lease of land and buildings were considered together for the purposes of the accounts. Under the code, the land and building elements will need to be considered separately for classification. Unless title is expected to pass to the lessee at the end of the lease term, the Council will be treating the lease of land as an operating lease.
- 5.9 Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. For example, the refuse

collection contract is dependant on the use of specific refuse vehicles and due to the nature of the contract a finance lease is deemed to exist.

#### Cash and Cash Equivalents

- 5.10 Under the code, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The revised accounting policies define short term as those maturing within 3 months from the date of acquisition. All the Council's investments in Money Market Funds will in future be classified as cash equivalents rather than short term investments in the Balance Sheet.

#### Employee Benefits

- 5.11 The Council will need to accrue for annual leave and flexi-time which has been earned by staff at the reporting date but not yet taken.

#### Grants and Contributions

- 5.12 In future grants and contributions relating to capital and revenue expenditure will be recognised immediately in the Comprehensive Income and Expenditure Account, except to the extent that the grant or contribution has a condition(s) attached to it that the Council has not satisfied. Previously capital grants and contributions were amortised to the Income and Expenditure Account over the life of the asset that they financed and revenue grants and contributions were matched to the pattern of the associated expenditure.

#### Componentisation

- 5.13 The Code places a much greater emphasis on componentisation. Where an asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life. The requirement for componentisation for depreciation purposes is only applicable to enhancement, purchases, or revaluations after 1 April 2010.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

#### Borough Solicitor

- 6.1 Nothing to add to the report.

#### Borough Treasurer

- 6.2 Comments are contained within the body of the report.

#### Equalities Impact Assessment

- 6.3 There are no equalities issues.

#### Strategic Risk Management Issues

- 6.4 The revised accounting policies have been subject to a review by District Audit for compliance to the code and no significant issues have been identified to date.

Background Papers

Contact for further information

Alan Nash – 01344 352180

[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

Arthur Parker – 01344 352158

[Arthur.parker@bracknell-forest.gov.uk](mailto:Arthur.parker@bracknell-forest.gov.uk)

Doc. Ref

G:\Accounting Services\IFRS\Governance and Audit\Governance and Audit - Accounting Policies.doc



## 1 ACCOUNTING POLICIES

### Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the accounts are set out below.

#### Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code of Practice is the first to be based on International Financial Reporting Standards (IFRS) as interpreted for local authorities.

An explanation of how the transition to IFRS has affected the Balance Sheet and Comprehensive Income and Expenditure Statement is detailed in **Note \_\_\_**.

The functional and presentation currency of Bracknell Forest Council (the Council) is the pound sterling.

The accounting convention adopted in the Statement of Accounts is principally historical cost, as modified by the revaluation of property, plant and equipment and investment property.

The preparation of the accounts in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

#### Going Concern

The accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future.

#### Accounts Payable and Accrued Expenditure

A creditor is recognised in the Balance Sheet when goods and services are received prior to the reporting date and payment occurs after the reporting date.

#### Income Policy

Council Tax is recognised as income in the reporting period levied.

Grant income is recognised when the associated conditions have been satisfied. Further details of the accounting for grants are presented below.

Fees and charges for goods or services delivered by the Council to the public are recognised as income at the date the Council provides the relevant goods or services.

Rents for the occupation of investment properties are recognised on a straight-line basis over the lease term.

Where Council Tax, fees and charges, and rents have been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where the debtor is impaired, the balance is written down to the amount expected to be collected.

### **Exceptional Items**

Items are presented as exceptional when that degree of prominence is necessary in order to give a fair presentation of the financial statements. A description of each exceptional item is given within the notes to the Accounts.

### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **Property, Plant and Equipment**

Expenditure on property, plant and equipment is capitalised at cost when it will bring benefits to the Council for more than one reporting period, subject to a de-minimis capitalisation threshold of £2,000 per scheme. Items below this limit are charged to

the Comprehensive Income and Expenditure Statement. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Comprehensive Income and Expenditure Statement during the financial period in which they are incurred.

Land and buildings are subsequently measured at fair value. Fair value is primarily based on the amount that would be paid for the asset in its existing use. Fair value is estimated using a depreciated replacement cost approach when the asset is specialised and/or rarely sold (such as a school).

The Council's Principal Valuation Surveyor carries out the valuations in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the "Red Book". The land and buildings are physically visited and valued on a 5 year cycle.

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Comprehensive Income and Expenditure Statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Comprehensive Income and Expenditure Statement. Any remaining increase is credited directly to Revaluation Reserves. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

When an asset's carrying amount decreases as the result of a revaluation or impairment, the decrease is debited directly to the Revaluation Reserves to the extent of any credit balance existing in respect of that asset. Any remaining decrease is recognised against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Infrastructure, community assets, and assets under construction are measured at depreciated historical cost. Vehicles, plant and equipment are also held at depreciated historical cost which is considered to be a proxy for fair value as the assets have short useful lives and/or low values.

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

Depreciation is calculated using the straight-line method to allocate an asset's carrying value to its residual value over its estimated useful life. Estimated useful lives are as follows:

Buildings	shorter of remaining life or 70 years
Community assets	shorter of remaining life or 70 years
Infrastructure assets	shorter of remaining life or 90 years
Vehicles, plant and equipment	shorter of remaining lease period, remaining life, or 30 years

Where an asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life. The requirement for componentisation for depreciation purposes is only applicable to enhancement, purchases, or revaluations after 1 April 2010.

No depreciation is charged on land and assets under construction.

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation charged to the Surplus or Deficit on the Provision of Services is transferred from the General Fund to the Capital Adjustment Account within in the Movement in Reserves Statement.

Each year the difference between depreciation, based on the revalued carrying amount of the asset, charged to the Comprehensive Income and Expenditure Statement and depreciation based on the asset's historic cost is transferred from the Revaluation Reserve to the Capital Adjustment Account.

## Investment Property

Investment property comprises land and buildings held solely to earn rentals and/or for capital appreciation. The Council has elected to treat an operating lease as a finance lease as permitted by the Code. This property is included in Investment Property in the Balance Sheet.

Investment property are measured initially at cost and subsequently at fair value, which is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Council's Principal Valuation Surveyor carries out the valuations each year in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the "Red Book".

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in

Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Investment properties held at fair value are not depreciated.

### **Operating Leases**

Where the Council grants an operating lease over an investment property the leased asset remains within Investment Property in the Balance Sheet. The rental income is recognised over the term of the lease on a straight-line basis in the Income and Expenditure in Relation to Investment Properties line in the Comprehensive Income and Expenditure Statement. Contingent rent is recognised in the period in which it arises and is the difference between the original rent and the revised rent following a rent review.

Up-front payments received on the granting of a leasehold interest classified as an operating lease are recognised as a Creditor in the Balance Sheet and amortised over the lease term.

### **Finance Leases**

Where the Council grants a finance lease over an investment property, the leased asset is derecognised (treated as a disposal) from Investment Property and a long term debtor is recognised for any leases with rental payments in excess of peppercorn rent. Peppercorn rents are recognised in the Income and Expenditure in relation to Investment Properties line in the Comprehensive Income and Expenditure Statement. Rental payments in excess of peppercorn rent are used to reduce the long-term debtor and also include finance income that will be earned by the Council whilst the debtor remains outstanding.

### **Intangible Assets**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item in Property, Plant and Equipment. Expenditure on the development of websites is not capitalised as the website is primarily intended to promote or advertise the Council's goods or services. Intangible assets include purchased licenses. Expenditure on application software is capitalised as an intangible asset when it will bring benefits to the Council for more than one reporting period.

The intangible assets held by the Council are measured at depreciated historical cost as readily ascertainable market values are not available.

Intangible assets are amortised on a straight-line basis over the shorter of remaining useful life or six years to the relevant service line in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification (using the appropriate valuation basis for that category of asset) and then carried at the lower of this amount and fair value (market value) less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement and can only be used for new capital investment.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Capital Receipts that do not arise from the Disposal of an Asset**

Receipts that do not arise from the disposal of an asset primarily relate to Right-to-Buy and VAT shelter receipts from Bracknell Forest Homes. These are recorded as

Other Operating Expenditure in the Comprehensive Income and Expenditure Account. The same amount is then transferred to the Capital Receipts Reserve and shown in the Statement of Movement on the General Fund Balance.

### **Charges to Revenue for Non-Current Assets**

General Fund service revenue accounts (as defined in CIPFA's Best Value Accounting Code of Practice), central support services and statutory trading accounts are charged with a depreciation charge and, where required, any related impairment or valuation loss (due to a clear consumption of economic benefits or other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off) for all assets used in the provision of services. In addition, services are also charged with a provision for amortisation of intangible assets and where required any related impairment loss for intangible assets used in the provision of services.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual provision from revenue towards the reduction of its overall borrowing requirement (the "Minimum Revenue Provision"). Any depreciation, impairment and valuation losses or amortisations charged to the Surplus or Deficit on the Provision of Services are replaced by this revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account.

Financing costs (including interest payable under finance leases and PFI arrangements) are included within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### **Revenue Expenditure Funded from Capital under Statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried in the Balance Sheet as Property, Plant and Equipment. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund. The credit is shown as a reconciling item in the Movement in Reserves Statement.

### **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the assets required to provide the services passes to the contractor. As the Council (along with Reading and Wokingham Councils) controls the services provided under the Waste PFI agreement, and as the ownership of the assets used to deliver the services pass to the three Councils at the end of the contract for no additional charge, the Council carries its share of the assets on the Balance Sheet.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- payment for the fair value of services received; and
- payment for the PFI asset, including finance costs.

### ***Services Received***

The fair value of services received in the year is recorded under Cultural, Environmental, Regulatory and Planning Services in the Comprehensive Income and Expenditure Statement.

### ***PFI Asset***

A PFI asset is recognised in Property, Plant and Equipment, as the asset comes into use. The asset is capitalised at the lower of the fair value of the property, plant or equipment and the present value of the minimum payments. Subsequently, the asset is measured at fair value according to the Council's accounting policy for each relevant class of asset.

### ***PFI Liability***

A PFI liability is recognised at the same time the PFI asset is recognised. It is measured initially at the same amount as the PFI asset and is subsequently measured at amortised cost. The liability, net of finance charges, is included in Short-term Creditors and Long Term Creditors. Interest is charged to the Comprehensive Income and Expenditure Statement over the arrangement period at a constant periodic rate of interest on the remaining balance of the liability for each period.

### ***Lease Classification***

Leases are classified as either finance leases or operating leases based on the substance of the arrangement. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Unless title is expected to pass to the lessee at the end of the lease term, leases of land have been classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### ***Operating Leases (Council as Lessee)***

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged as an expense of the services benefiting from use of the asset in the Comprehensive Income and Expenditure Statement on a straight-line basis over the period of the lease. Contingent rent is recognised in the period in which it arises.

### ***Finance Leases (Council as Lessee)***

Leases of property, plant and equipment, where the Council has substantially all the risks and rewards of ownership, are classified as finance leases.



Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property, plant and equipment and the present value of the minimum lease payments. Up-front payments for a leasehold interest classified as a finance lease are capitalised as part of the asset.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The corresponding lease obligations, net of finance charges, are included in Creditors.

Contingent rent is recognised as an expense in the period in which it arises.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## **Financial Instruments**

### ***Recognition***

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with the Council's normal purchase, sale or usage requirement, are recognised when, and to the extent which, performance occurs. All other financial assets and liabilities are recognised when the Council becomes party to the contractual provisions to receive or make cash payments.

### ***Classification and Measurement***

Financial assets, other than cash and cash equivalents, are classified as loans and receivables and are measured at amortised cost.

Financial liabilities are classified as creditors and are measured at amortised cost.

### ***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Loans and receivables are initially recognised at fair value and then measured at amortised cost using the effective interest rate method. The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating the interest revenue or expense over the relevant period using the estimated future cash flows. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

### ***Impairment of Financial Assets***

At the end of each reporting period, the Council assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- Objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period ('a loss event');
- The loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- A reliable estimate of the amount can be made.

Financial assets are recorded in the Balance Sheet net of any impairment.

### ***De-recognition***

A financial asset is considered for de-recognition when the contractual rights to the cash flows from the financial asset expire, or the Council has either transferred the contractual right to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. The Council de-recognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

### ***Financial Liabilities***

All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

They are included in Short-term Creditors except for the amounts payable more than twelve months after the end of the reporting period, which are classified as Long Term Creditors.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Comprehensive Income and Expenditure Statement.

The Council has no external borrowing as at 31 March 2011.

## **Employee Benefits**

### ***Leave and Flexi-time Accrual***

The accrual represents leave and flexi-time earned as of the reporting date that will be utilised in the next reporting period. The accrual is measured at the amount of the benefit earned by the employees of the Council. It is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

### ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### ***Post Employment Benefits***

The Council provides retirement benefits as part of the terms and conditions of employment through the following defined benefit pension schemes:

- Teacher's Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); and
- Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Council.

The benefits (retirement lump sums and pensions), which are based on pay and service, are earned over the term of employment.

### *Teacher's Pension Scheme*

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. It is not possible to identify the Council's share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

### *Local Government Pension Scheme*

The Council's contributions are determined by triennial actuarial valuation. The latest valuation was as at 31 March 2010. Under Superannuation Regulations, the contribution rates are set to meet all the liabilities of the fund.

The Balance Sheet includes a Pension Reserve which reflects the Council's share of the schemes assets and liabilities. Employer contributions will be adjusted in future years to fund any projected deficit.

The liabilities of the pension scheme attributable to the Council are measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees.

The liabilities are discounted using a discount rate based on the indicative rate of return on the iBoxx AA rated over 15 year Corporate Bond Index, which is *.\*.\*%* as of 31 March 2011.

The assets of the pension fund attributable to the Council are measured at fair value as follows:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price; and
- property – market value.

The change in the net pension liability consists of the following seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years;

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees;
- interest cost – the increase in the present value of benefits during the year due to the passage of time;
- expected return on assets – the annual investment return on the fund assets, based on an average of the expected long-term return;
- actuarial gains and losses – result of events not coinciding with assumptions made at the last actuarial valuation or the actuaries updating the assumptions; and
- contributions paid to the Royal Borough of Windsor and Maidenhead Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Current service costs are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked. Past service costs, settlements and curtailments are reflected in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs. Interest cost and expected return on assets are reflected in Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

Actuarial gains and losses are recognised directly in Other Comprehensive Income and Expenditure and the Pensions Reserve.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## **Government Grants and Other Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Creditors. When conditions are

satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Area Based Grant**

Area Based Grant is a non-ring fenced general grant allocated directly to local authorities as additional revenue funding. No conditions are attached to the grant ensuring full local control over how it is used. The Council's share of Area Based Grant is therefore included under Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Account.

### **Provisions**

Provisions are recognised when:

- the Council has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. Where the effect is material, the estimated cash flows are discounted. The increase in the provision due to passage of time is recognised as interest expense.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise

be made but either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes and do not represent usable resources for the Council. These are the Revaluation Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Short-term Accumulating Compensated Absences Account and Pension Reserve, which are explained in the relevant policies and Notes to the Accounts.

### **Inventory**

Inventory, which primarily relates to shop and catering goods, is measured at the lower of cost and net realisable value using first-in first-out method.

### **Allocation of Support Services' Costs (Overheads)**

The costs of support services and service management are apportioned to services within all programme areas on an assessed basis e.g. staff time, number of transactions or space occupied. The total absorption costing principle is used – the full cost of overheads and support service are shared between users in proportion to the benefits received with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation; and

Non Distributable Costs – the costs of discretionary benefits awarded to employees retiring early and any depreciation, revaluation losses or impairment losses chargeable on surplus assets or Assets Held for Sale.

These two costs categories are defined in the Best Value Accounting Code of Practice (BVACOP) and accounted for as separate headings on the Comprehensive Income and Expenditure Statement, as part of the Surplus or Deficit on the Provision of Services.

### **Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **Landfill Allowances Trading Scheme (LATS)**

The Waste and Emission Trading Act 2003 places a duty on waste disposal authorities in England and Wales to reduce the amount of biodegradable municipal waste disposed to landfill. The Landfill Allowance Trading Scheme is a 'cap and trade' scheme which allocates tradable landfill allowances to each waste disposal Council up to the 'cap'. The LATS gives rise to:

- An asset for the allowances held;
- LATS grant income; and
- A liability for the actual landfill usage.

Allowances are recognised as current assets and are measured initially at their fair value. Landfill allowances are issued free by DEFRA. The fair value of the allowances issued to the Council is a government grant. The grant is initially recognised in the Balance Sheet and subsequently recognised as income over the compliance year for which the allowances were allocated.

As landfill is used a liability and an expense are recognised for the actual landfill usage. The liability is a provision which is discharged by using allowances to meet the liability and by the payment of any cash penalty to DEFRA for exceeding the landfill. The liability is normally recognised in the Balance Sheet at the present market value. However where some of the obligation will be met by paying a cash penalty to DEFRA, that part is measured at the cost of the penalty.

After initial measurement, the value of landfill allowances is re-measured at the lower of cost or net realisable value. Where there is no evidence of an active market for landfill allowances, for example where the number of allowances issued is greater than that required by authorities, the fair value of the allowances and the net realisable value of the allowances is likely to be nil.



## **Value Added Tax (VAT)**

VAT payable is included as an expense in the Comprehensive Income and Expenditure Statement only to the extent that it is not recoverable. VAT receivable is excluded from income.

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