



NOTICE OF MEETING

Governance & Audit Committee

Monday 18 January 2010, 7.30 pm

**Function Room, Fifth Floor, Easthampstead House, Town Square,
Bracknell**

To: Governance & Audit Committee

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

cc: Substitute Members of the Committee

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

ALISON SANDERS
Director of Corporate Services

EMERGENCY EVACUATION INSTRUCTIONS

- 1 If you hear the alarm, leave the building immediately.
- 2 Follow the green signs.
- 3 Use the stairs not the lifts.
- 4 Do not re-enter the building until told to do so.

If you require further information, please contact: Liz Sanneh
Telephone: (01344) 352233
Email: liz.sanneh@bracknell-forest.gov.uk
Published: 7 January 2010



Governance & Audit Committee
Monday 18 January 2010, 7.30 pm
Function Room, Fifth Floor, Easthampstead House, Town
Square, Bracknell

AGENDA

Page No

1. **Apologies for Absence and Substitute Members**
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 of previous meeting**
To approve as a correct record the minutes of the meeting of the Committee held on 29 September 2009. 1 - 4
4. **Urgent Items of Business**
5. **Annual Audit and Inspection Letter**
The purpose of this report is to present the Annual Audit and Inspection Letter (AAIL) which has been received from the Audit Commission. The External Auditor will attend the meeting to present the Letter and answer any questions. 5 - 22
6. **Internal Audit Assurance report**
This report provides a summary of Internal Audit activity during the period April to December 2009. 23 - 34
7. **Governance Arrangements**
This report is to appraise the Committee of a proposal to abolish the Constitution Review Group and to transfer its functions to the Governance and Audit Committee. 35 - 40
8. **Related Party Transactions**
The purpose of this report is to consider whether Members of the Council should be required to complete an annual declaration of "Related Party Transactions" in the same fashion as senior officers are required to. 41 - 46

9. **International Financial Reporting Standards**

To inform the Committee of the implications of the pending introduction of International Financial Reporting Standards.

47 - 50

10. **Future meeting dates**

To note the future meeting dates at 7.30pm:

- 26 January 2010 in Function room – Closed session for committee training with Ian Fifield. Both Members and Substitute Members are welcome.
- 29 March 2010, 29 June 2010, 21 September 2010, 23 November 2010 and 22 March 2011.

This page is intentionally left blank



GOVERNANCE & AUDIT COMMITTEE
29 SEPTEMBER 2009
7.30 - 8.55 PM

Bracknell Forest Borough Council:

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

Present:

Independent Members:

Gordon Anderson

Apologies for absence were received from:

Councillors Beadsley and Brunel-Walker

14. Declaration of Interest

There were no declarations of personal or prejudicial interest.

15. Minutes of previous meeting

The minutes of the meeting held on 29 June 2009 were approved as a correct record and signed by the Chairman.

Governance & Audit Committee Training Requirements

Members were advised that a training programme had been identified and officers were pursuing options to deliver appropriate training on the role of the Committee.

Internal Audit Annual Assurance Report 2008-09

It was reported that the Chairman of Health Overview and Scrutiny Panel was pursuing the issue of non payment by Berkshire East PCT for their contribution to the pooled budget for Intermediate Care. It had been identified that this was not ring-fenced and budget pressures had resulted in the money being spent on other priorities. Discussions were taking place to avoid this happening again.

Members were advised that the Overview and Scrutiny working group review on Fraud had been completed and housing benefit had not been included in its scope as reported.

16. Urgent Items of Business

There were no urgent items of business.

17. External Audit: Annual Governance Report

The Committee considered a report on the Audit Commission's Annual Governance Report which summarised the work carried out to discharge their statutory audit

responsibilities. Phil Sharman, District Auditor, and Catherine Morganti, Audit Manager, Audit Commission attended the meeting to present the Report and answer questions regarding the findings. The detailed audit work was substantially complete.

Financial statements - An unqualified opinion was given despite the challenging circumstances with changing senior staff members. There were no weaknesses identified in internal control. Two recommendations were made which covered the review of the closedown process to build in additional time for review and establish fixed assets accounting records.

Use of resources – All criteria had been met and an unqualified conclusion was given in relation to the Council's adequate arrangements to secure economy, efficiency and effectiveness.

Appendix 4 of the agenda papers detailed the draft letter of representation including reference to specific representations relating to individual asset valuation schedules and the closure of the Housing Revenue Account.

Members discussed references to valuations and it was explained that there was a clerical error in the date recording of asset valuations and a separate issue around depreciation of assets. Members queried the current position regarding the District Auditor's fee and it was clarified that due to the changes that had occurred the fee was still in negotiation but the District Auditor confirmed that the Borough Treasurer was robust in challenging the fee.

RESOLVED that the report be noted.

18. Statement of Accounts 2008/09

The Committee considered the revised Statement of Accounts 2008/09 following changes that had been made as a result of the audit by the District Auditor. The report summarised the findings of the audit and the key changes made. It was noted that none of the changes had a detrimental impact on the Council's overall financial position but were based on record keeping relating to fixed assets and technicalities of depreciation.

The changes resulting from the audit related to the revaluation reserve, pension costs, capital receipts that do not arise from the disposal of an asset, amortisation of Deferred Government Grants and a series of presentational changes which were detailed in the report.

Members discussed how pension contributions were considered on a three year cycle and how Bracknell Forest was represented at meetings to discuss the Berkshire Pension Fund. It was noted that the annual valuation for the Statement of Accounts did not impact upon the level of future contributions but was a snap shot of the Fund's value.

Members discussed the Icelandic bank impairment and it was noted that this would be identified in the 2010-11 accounts.

It was noted that on pg.95 of the agenda papers the figure relating to March 2006 Defined Benefit Obligation should read £222,859 not as printed. The Committee agreed that any typographical errors which were identified after the meeting could be amended.

RESOLVED that

- i) the revised Statement of Accounts 2008/09 (attached to the report) be approved;
- ii) the Chairman of the meeting be authorised to sign and date the revised Statement of Accounts on behalf of the Committee; and
- iii) the Draft Letter of Representation set out in Appendix 4 of the District Auditor's Annual Governance Report be approved.

19. **Audit and Risk Management Update**

The Committee considered the Head of Audit and Risk Management's report which updated Members on the progress on risk management in the Council and on 2009/10 audit reports that had been issued with a limited assurance conclusion.

Members were advised that further risk management training would be provided after the Risk Management Strategy and internal risk management guidance had been reviewed. Training had begun for officers on a priority group basis.

The first report on the 2009/10 Annual Internal Plan would be presented to the next meeting of the Committee however two limited assurance conclusions had been given:

- Cranbourne Primary School – the Priority 1 recommendation had been raised to address the fact that electricity had not been recharged to a pre-school since the premises' inception in 2006. In total 19 recommendations had been raised including unimplemented recommendations which had been raised as part of previous audits.
- The Pines School – the first Priority 1 recommendation was to ensure that supply teachers were subject to the same pre-employment checks as other staff including CRB and List 99 checks and the second Priority 1 recommendation was to ensure that outstanding documentation to support flood insurance claim was sent to the Insurance team at the Council. There were other recommendations raised which included partially implemented and unimplemented recommendations from the previous audit.

Members discussed the support arrangements which were in place to help schools with these issues such as training, Bursar meetings and guidance but it was noted that the recommendations ranged across the whole control environment.

RESOLVED that the report be noted.

20. **Partnership Governance**

The Committee considered the report which explained what had been put in place to improve governance arrangements and to reduce the risks to the Council in relation to Partnerships.

These included:

- Partnership Governance Framework and Toolkit
- Register of Significant Partnerships
- Annual Self Assessment by partnerships identified on the Register
- Standard wording for terms of reference

- New working arrangements such as the newly formed Partnership Overview and Scrutiny Group and reporting links between the relevant Overview and Scrutiny Panels and the theme partnerships.

Members discussed the issue of protecting Intellectual Property Rights of potentially lucrative ideas created through partnership projects and the difficulties of the financial basis of some partnerships where collaborative working needed to be jointly funded. The financial element was noted as a key element of the auditing process for established partnerships and a key consideration when setting up new arrangements.

RESOLVED that the new procedures that have been put in place for improving governance within partnerships be noted.

CHAIRMAN

GOVERNANCE AND AUDIT COMMITTEE 18 JANUARY 2010

ANNUAL AUDIT AND INSPECTION LETTER (Borough Treasurer)

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the Annual Audit and Inspection Letter (AAIL) which has been received from the Audit Commission. The External Auditor will attend the meeting to present the Letter and answer any questions.

2 RECOMMENDATION

- 2.1 That the Governance and Audit Committee note the Annual Audit and Inspection Letter at Appendix 1.
- 2.2 That Directors have regard to the areas for improvement set out in the annual Audit and Inspection letter when finalising their service plans for 2010/11.

3. ADVICE FROM STATUTORY OFFICERS

3.1 Borough Treasurer

Nothing to add to the report

3.2 Borough Solicitor

Nothing to add to the report

3.3 Strategic Risk

All risks identified in the AAIL will be addressed in departmental service plans for 2010/11.

4 SUPPORTING INFORMATION

- 4.1 The Audit Commission is required to provide the Council with an AAIL. The AAIL provides a summary of the Audit Commission's assessment of the Council. It includes messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess arrangements to secure value for money under use of resources.
- 4.2 The Audit Commission issued an unqualified opinion on the Council's accounts for 2008/09 and also issued an unqualified value for money conclusion stating that in all significant respects the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009. Under the new and more demanding use of resources framework, Bracknell Forest scored 2 out of a maximum of 4 meaning that the Commission has no

significant concerns over the arrangements put in place by the council and that those arrangements meet established professional practice and guidance and are operating effectively.

- 4.3 The AAIL summarises the key messages for the Council at page 3 of the document. Whilst the letter is positive about the Council's performance, some areas for improvement are highlighted on page 4. These will be addressed through departmental service plans for the coming year.

5 CONSULTATION

- 5.1 Not applicable.

Contact for further information

Timothy Wheadon, Chief Executive – 01344 355609
Timothy.Wheadont@bracknell-forest.gov.uk

Chris Herbert, Borough Treasurer -01344 355694

Doc. Ref
Governance and Audit Committee\AAIL report

Annual Audit Letter

Bracknell Forest Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	7
Closing remarks	14
Appendix 1 – Use of resources criteria and scores	15

Status of our reports

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.

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and Financial Statements

- 1 I gave an unqualified opinion on the Council's accounts on 30 September 2009.
 - 2 The Council's accounts met statutory requirements, financial reporting standards and presented fairly its financial performance and position.
-

Value for money and Use of Resources

- 3 I issued an unqualified value for money conclusion stating that in all significant respects, Bracknell Forest Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
 - 4 In my Use of Resources assessment, I concluded that the Council scored 2 out of a maximum of 4. This means that I have no significant concerns over the arrangements put in place by the Council and that those arrangements meet established professional practice and guidance and are operating effectively.
 - 5 I have highlighted strengths in the Council's arrangements for achieving savings and its use of natural resources. I have identified areas that I believe have scope for further improvement in managing your use of resources. These include:
 - developing further the medium term financial planning process;
 - improving data quality in the information used for decision making and managing performance;
 - tracking progress in developing governance arrangements for partnerships and introducing arrangements for monitoring their financial performance; and
 - considering the long term implications of maintenance backlog against other spending priorities.
-

Economic downturn and pressures on the public sector

- 6 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them.

- 7 The impact on treasury management strategies in the public sector has been immediate. The Council had £5m invested in Icelandic banks and to date has recovered £331,000. The Council has reviewed its Treasury Management arrangements in response to the wider economic climate and in my view appropriately strengthened these during the year.
-

Audit fee

In our original audit plan, the estimated fee for the 2008/09 audit was £262,800. This excludes the CAA inspection fee and charges for certifying grants claims.

In undertaking our audit we have had cause to undertake additional work on:

- assessing the Council's progress in addressing weaknesses in its procurement arrangements; and
- the audit of the Council's accounts due to the changeover in Chief Accountant and the need to improve some working papers.

We have been able to contain these matters within other reductions agreed with the Treasurer. The final fee for the 2008/09 statutory audit is therefore £255,200.

Actions

- 8 I have identified areas for improvement in this audit letter and, where appropriate, recommendations are included in the reports provided during the course of my audit. The Authority should ensure through its follow-up procedures that recommendations made in these audit reports are implemented in accordance with agreed timetables.
-

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I have issued an unqualified opinion on the financial statements.

Significant issues arising from the audit

- 10** The most significant issue from the audit is that I was able to give an unqualified opinion, a 'clean' opinion, on the Council's financial statements on 30 September 2009.
- 11** During my planning process I raised a number of risks that I would need to review during my audit, including the change in Chief Accountant, how you accounted for investments in Icelandic banks, the impairment of fixed assets due to the economic downturn, accounting for the PFI and the closure of the Housing Revenue account.
- 12** This was a challenging year for the Council with the departure of the Chief Accountant. The Council responded by making an interim appointment to ensure statutory deadlines for publishing the Statement of Accounts could be met. Now that a permanent appointment is in place the Council needs to ensure that the closedown process is fully reviewed to inform plans for 2009/10.
- 13** Many authorities look to comply with capital accounting requirements by using dedicated fixed assets systems as part of general ledger systems. The Council however maintains spreadsheets to support fixed assets entries. These spreadsheets are updated only at the year end with capital expenditure incurred and therefore do not provide a reconciling control to the general ledger during the year. They were not straightforward to follow through and do not contain all the information required by the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (the SoRP). This issue will become more pressing with the introduction of IFRS (International Financial Reporting Standards).
- 14** The key issues raised for the Council's attention, and which were subsequently amended in your accounts, included the town centre development, some pension disclosures, capital receipts and internal income and expenditure.
- 15** Given the significance of these adjustments, you re-approved your financial statements on 29 September 2009.

Accounting practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting. There were several disclosure amendments to the accounts. Many of these issues arose due to the changeover in key personnel.
- 17** The finance team are planning for future developments including readiness for the implementation of International Financial Reporting Standards (IFRS). As part of this a baseline assessment of work needed has been obtained, however there remains much to achieve to ensure the Council has the necessary information to compile accounts in line with the requirements for IFRS, particularly for fixed assets and leases.

Material weaknesses in internal control

- 18** I did not identify any significant weaknesses in your internal control arrangements.

Value for money and use of resources

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion and was reported as unqualified.

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement. My conclusion is that the Council's arrangements to govern its business and manage its finances and resources are consistent with established professional practice and guidance, meet statutory requirements and operate efficiently.

VFM Conclusion

- 19 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in Appendix 1 as the relevant criteria for the VFM conclusion at the Council.
- 20 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 21 In 2007/08 I qualified my value for money conclusion due to weaknesses the Council identified in its procurement arrangements. I am satisfied the Council has made sufficient progress to be able to lift the qualification for 2008/09.

Use of resources judgements

- 22 The new use of resources assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the KLOE are more strategic and focus much more explicitly than previously on value for money achievements than on processes.
- 23 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 24 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 would cause the VFM conclusion to be qualified as this represents a failure to meet the minimum requirements at level 2.

25 The Council's use of resources theme scores are shown in Table 1.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	3

26 Bracknell Forest Council's arrangements to manage its finances and govern its business are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.

27 The Council performed well in 2008/09 in managing its use of natural resources. A climate change action plan is in place and a baseline has been measured. The Council has well established systems to monitor and reduce energy use which have resulted in tangible reductions in energy and water usage.

28 The Council performed adequately in the year in managing finances and governing its business, with a number of improvements being introduced for the future. The position in the 2008/09 year was that:

- the Council was continuing to maintain its focus on value for money and achieving savings;
- procurement processes were being strengthened to address previously identified weaknesses;
- risk management arrangements have been developed;
- the Council was in early stages of strengthening arrangements for ensuring data quality; and
- governance arrangements were being strengthened with the formation of the Governance and Audit Committee.

Recommendation

- R1** The Council should look at the potential areas for improvement in managing use of resources and develop an action plan that takes these forward linked to its key priorities. The recommended areas include:
- developing further the medium term financial planning process;
 - improving data quality;
 - tracking progress in developing governance arrangements for partnerships and introducing arrangements for monitoring their financial performance; and
 - considering the long term implications of maintenance backlog against other spending priorities.

Managing finances

- 29** Bracknell Forest Council's arrangements to manage its finances are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 30** The Council has consistently managed spending within its budgets over the last 11 years. In 2008/09 the Council underspent its budget by £1.9m, drawing £0.2m from reserves. For some time the Council has been working towards a 'soft landing', gradually reducing reliance on income from reserves and increasing council tax to arrive at a balanced budget. The reduction in investments and income from investments resulting from interest rate reductions (current estimated annual reduction of £2.5m), and the impact of the recession on income from car parking and leisure facilities is likely to delay the achievement of a budget not requiring use of reserves beyond original timescales.
- 31** Capital and revenue expenditure is linked to Council priorities. The budget is linked to the Medium Term Objectives. Budget setting continues to be primarily based on an incremental approach. Three year budget forecasts are in place. In 2009/10 the Council has developed its medium term financial planning by publishing a Medium Term Financial Strategy in September 2009.
- 32** Budget setting processes emphasise consultation with all councillors and the final budget, including savings targets, are finalised by the Executive supported by officers.
- 33** Value for money is generally good with good quality services and a focus on achieving savings. Service performance is good and costs are low allowing for external factors. Council Tax continues to be among the lowest of any mainland unitary authority and services perform well with 42 per cent of performance indicators in the best quartile. The Council has achieved over £7 million of Gershon efficiency gains since 2004/05 – in excess of its £5.5 million target – and included a further £2.7 million of expenditure reductions in its 2008/09 budget.

- 34 The Council has taken steps to understand costs and where efficiencies can be made. Links are made in the service efficiency strategy to the service plans. There remains further scope to improve the Council's understanding of its costs by wider and systematic use of comparative information, unit costing and more consistent use of whole life costing.
- 35 Internal financial reporting is achieved through monthly and quarterly reporting cycles which provide comprehensive information. The necessary knowledge and understanding to manage spending is concentrated in relatively few people and the Council plans to review its training for officers in this area.
- 36 The Council prepares accounts that meet statutory requirements, financial reporting standards and presents fairly its financial performance and position. The closedown and audit of the 2008/09 accounts was complicated by a change in Chief Accountant in 2009 and several non trivial adjustments were agreed. The Council plans to publish its Annual Report later this year.

Governing the business

- 37 Bracknell Forest Council's arrangements for governing the business are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 38 The Council is performing well. Its vision and priorities are clearly articulated in 6 overarching priorities and 13 Medium Term Objectives. The Council delivers good services that represent value for money. Decision making processes are sound.
- 39 There is some joint commissioning and work to explore new opportunities. Consultation is ongoing throughout the year with steering groups. The Council actively promotes inclusivity through 'champions' and a focus on social cohesion.
- 40 Officers and members have a constructive relationship. The recent organisational restructuring has achieved efficiency savings and promotes a stronger corporate approach. The LSVT completed in 2008 has the potential to deliver significant improvements to social housing in the borough.
- 41 Some procurement practices have been poor in the past but, with investment to address weaknesses, are now improving and offer potential for better coordination in the future. The creation of a contracts register will strengthen corporate oversight.
- 42 The Council regularly reports financial and performance information. The corporate approach to data quality is in the early stages of being strengthened to promote a more consistent approach across directorates. Results from our spot checks show, however, that further progress is needed.
- 43 Overall there are no significant concerns around internal control systems and the recently created Governance and Audit Committee should strengthen this area further. Risk management processes are being strengthened. The Standards Committee is primarily reactive and could play a greater role in supporting councillors and officers by promoting training and monitoring compliance with and awareness of Codes of Conducts and protocols.

Value for money and use of resources

- 44 The Council works effectively with partners and is reviewing governance arrangements for partnerships. It has yet to put in place arrangements for reviewing financial performance of significant partnerships.

Managing resources

- 45 Bracknell Forest Council's arrangements for managing its resources are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 46 Arrangements for managing natural resources go beyond this baseline. A climate change action plan is in place and a baseline has been measured. The Council has well established systems to monitor and reduce energy use which have resulted in tangible reductions in energy and water usage. Existing energy efficiency measures are being added to in order to deliver further improvement. The Council has a recent initiative to include environmental impact as a criterion for evaluating 'Invest to Save' projects. In signing the Nottingham Declaration the Council has reinforced its commitment in this area.
- 47 The Council's arrangements for managing its assets are adequate. Assets are seen as a corporate resource, and receipts are pooled for the benefit of the council as a whole. Although backlog maintenance is high, and does not appear to be falling, this is consistent with the asset management strategy which targets priority one maintenance obligations only. The Council's housing stock was transferred to a new RSL Bracknell Forest Homes in 2008 in significant part to facilitate investment in improvement of housing stock condition. Assessments have been carried out on some council properties to assess their suitability for their current function. The council works with its partners and they are invited to attend the Council's asset management group.

Health inequalities

- 48 Local government bodies are required to work together with health bodies for the benefit of tax payers and patients. By working in partnership it is expected that public bodies will be better able to develop integrated services and improve the health and well being of local people.
- 49 To support my use of resources assessment I undertook a review of how effectively partners in East Berkshire are working together to address issues of health inequalities. This review was a joint project across the following organisations:
- Bracknell Forest Borough Council;
 - Slough Borough Council;
 - Royal Borough of Windsor and Maidenhead Council; and
 - Berkshire East Primary Care Trust.

- 50** My review found collaboration where health inequalities priorities are shared, such as the healthy hearts initiative and smoking cessation programmes. However, there is significant scope across these bodies for improving the delivery of outcomes by:
- clearly identifying how each partner will contribute to process outcomes;
 - ensuring performance management information to monitor agreed service delivery is routinely shared;
 - evaluating the costs and benefits of closer working, such as the identification of a specific public health group to lead on common objectives across East Berkshire;
 - clarifying the governance and accountability structures for the roles of partners; and
 - using partnership working to identify innovative ways to support increased public health capacity.
- 51** The Council should work with the Primary Care Trust through the forum of the Joint Strategic Commissioning Board to address those matters raised in the report to help reduce health inequalities in the Borough.

Recommendation

- R2** Work with partners to ensure action is taken to address the recommendations outlined in the health inequalities review.

Managing health and social care in partnership

- 52** With changing demographics, and in particular the growing number of older people living longer, there is a greater demand for support and care. This demand is increasing the pressure on the health and social care budgets of Local Government and NHS bodies.
- 53** To support my use of resources assessment I undertook a review of how effectively partners in East Berkshire are working together to manage adult social care and continuing healthcare costs.
- 54** This review was a joint project across the following organisations:
- Bracknell Forest Borough Council;
 - Slough Borough Council;
 - Royal Borough of Windsor and Maidenhead Council; and
 - Berkshire East Primary Care Trust.

Value for money and use of resources

55 This review found that:

- existing frameworks are effective at monitoring expenditure;
- continuing care criteria are effective in managing expenditure; and
- each organisation has invested time and resources in developing services which are equitable and meet the needs of their local communities.

56 To further improve outcomes partner organisations need to take action to:

- ensure that health and social care partnerships have agreed objectives, clear outcome targets and robust performance management arrangements;
- review the effectiveness of the management of delayed transfers of care and implement an action plan to address the issues identified; and,
- assess the potential benefits of closer working, such as further integration to manage intermediate care teams, establishing a joint framework for sharing good practice, or the joint training of care staff.

57 The Council should work with the Primary Care Trust through the forum of the Joint Strategic Commissioning Board to address those matters raised in the report to better manage health and social care in partnership.

Recommendation

R3 Work with partners to ensure action is taken to address the recommendations made in the health and social care partnership review.

Economic downturn and pressures on the public sector

58 The economic downturn and banking crisis have been having a significant impact on public finances and the bodies that manage them. The impact in some areas has been immediate but there are wider and longer term impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressure on income streams.

59 The impact on treasury management strategies in the public sector has been immediate. The Council had £5m invested in Icelandic banks and has provided for an impairment of £877,000 although recovery of £331,000 has already been secured. The Council has reviewed its Treasury Management arrangements in response to the wider economic climate and in my view appropriately strengthened these during the year.

Closing remarks

- 60** I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Governance and Audit Committee on 18 January 2010 and will provide copies to all Councillors.
- 61** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2 Audit reports issued

Report	Date issued
Audit and Inspection Plan	May 2008
Audit Plan refresh 2008/09	February 2009
Health Inequalities (phase 2)	June 2009
Managing Health and Social Care in partnership	August 2009
Annual Governance Report	September 2009
Use of Resources 2008/09	November 2009
Data Quality 2008/09	November 2009
Final Accounts Memorandum	December 2009

Recommendation

- R4** The Authority should ensure through its follow-up procedures that recommendations made in audit reports issued through the year have been implemented in accordance with agreed timetable.

- 62** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's officers for their support and co-operation during the audit.

Phil Sharman
District Auditor
December 2009

Appendix 1 – Use of resources criteria and scores

Use of resources theme	VFM criterion met?	UoR score
Managing Finances		2
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes	2
KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes	3
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes	2
Governing the Business		2
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes	2
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	Yes	2
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	Yes	2
Managing Resources		3
KLOE 3.1 - Is the organisation making effective use of natural resources?	Yes	3
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Yes	2
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Not applicable in year	Not scored in year

The Audit Commission

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212, Fax: 0844 798 2945, Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

**GOVERNANCE AND AUDIT COMMITTEE
18 JANUARY 2010**

**INTERNAL AUDIT ASSURANCE REPORT
April – December 2009**

(Head of Audit and Risk Management)

1 INTRODUCTION

- 1.1 This report provides a summary of Internal Audit activity during the period April to December 2009. It covers work carried out by both the in-house resource and the Council's contractor H. W. Controls and Assurance. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports.

2 RECOMMENDATIONS

- 2.1 The Governance and Audit Committee are asked to note the attached report.**

3. ADVICE FROM STATUTORY OFFICERS

- 3.1 Borough Treasurer
Nothing to add to the report

- 3.2 Borough Solicitor
Nothing to add to the report

3.3 Strategic Risk

Internal Audit provides assurance on the Council's control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

4 SUPPORTING INFORMATION

Background

- 4.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.
- 4.2 The provision of Internal Audit services is outsourced to H. W Controls and Assurance under a contract for 3 years which commenced on 1 April 2009 with an option to extend for a further 1 year. H.W Controls and Assurance are responsible for delivering the audits set out in the Annual Internal Audit Plan approved by the

Governance and Audit Committee in April 2009. In addition, one audit within the Annual Internal Audit Plan was carried out internally. The attached report summarises delivery to date on the audits approved under the Plan and other activities carried out in-house.

5 CONSULTATION

5.1 Not applicable.

Background Papers

Internal Audit Reports
Annual Internal Plan 2009/10
Contract Monitoring Records
Quality Questionnaires
NFI documentation
CIPFA Code of Practice for Internal Audit
Risk Management Training Courses
Risk Management Toolkit
Strategic Risk Register

Contact for further information

Chris Herbert – 01344 355694
Chris.herbert@bracknell-forest.gov.uk

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



HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2009

1. BACKGROUND

1.1 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.” This report summarises the activities of Internal Audit for the period April to December 2009 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

2.1 The basic approach adopted by Internal Audit falls broadly into three types of audit:

- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council’s interests.
- Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor’s audit of the annual accounts.
- Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities.

2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council’s operations. The different categories of recommendation and assurance opinion are set out in the following tables.

Recommendation Classifications

PRIORITY	DESCRIPTION	IMPLEMENTATION DATE INDICATOR
1	Essential – addresses a fundamental control weakness and must be brought to the specific attention of senior management and resolved.	Immediate
2	Important – addresses a control weakness and should be resolved by management in their area(s) of responsibility.	To agreed timetable.
3	Best practice – addresses a potential improvement or amendment issue.	Following consideration

Assurance Opinion Classifications

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	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.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

- 2.3 Internal Audit provides the Borough Treasurer with details of all audits which have generated Priority 1 recommendations and, therefore, a limited (or no) assurance opinion, as soon as the draft report is issued. This ensures that the Section 151 Officer is informed at the earliest opportunity of any potential weaknesses or problem areas. Directors are also notified of every audit report issued within their Directorate and the resulting assurance level. This is at the final report stage for audits other than those with a limited or no assurance opinion, when directors receive a copy of the draft report.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

- 3.1 The Annual Internal Audit Plan for 2009/10 was considered and approved by the Governance and Audit Committee on 29th April 2009. The delivery of the individual audits in the Internal Audit Plan for 2009/10 is being undertaken by our new contractors H.W. Controls and Assurance who replaced Deloitte from 1 April 2009.
- 3.2 During the period April to December 2009, 27 reports were finalised, 12 had been issued in draft awaiting management responses, 6 were going through the quality review and response process and in 8 cases audit work was in progress. In addition, two grant claims have been audited. A summary of assurance levels is given below for the finalised and issued reports:

ASSURANCE	APRIL – DECEMBER 2009
Significant	1
Satisfactory	35
Limited	3
None	-
Total	39

3.3 The table below provides details by directorate on audits finalised, at draft stage and in progress setting out their status as at 31st December 2009.

Audit	Assurance Level				Recommendations			Status
	Significant	Satisfactory	Limited	None	Priority			
					1	2	3	
Chief Executive's Office								
Print & Design Follow Up 08/09 Ltd.		X					4	Final
Data Quality		X			-	-	-	Final
New Performance Management System – IT Audit		X				1		Final
Corporate Services								
Transport - vehicle maintenance, fuel cards & licenses		X				3	1	Final
Corporate Governance		X				9	1	Issued in draft
Hospitality Registers		X				5	3	Issued in draft
ICT Helpdesk – IT audit		X				4		Final
Programme & Project Management – IT audit		X				1	1	Final
Computer Data Back-up – IT audit		X					1	Issued in Draft
Staff Benefits		X				5		Final
Physical and Environmental Controls –IT audit		X				2	2	Issued in Draft
Data Protection & Freedom of Information		X				3	1	Issued in Draft
Budget/Budgetary Control		X				1		Final

Audit	Assurance Level				Recommendations			Status
	Significant	Satisfactory	Limited	None	Priority			
					1	2	3	
Cash Management								WIP
Bank & Reconciliations		X					1	Quality reviewed and awaiting issue in draft
Treasury Management		X				1	3	Issued in draft
Creditors		X				6	5	Submitted for quality review 21/12/09
Debtors		X				5		Quality reviewed and awaiting issue in draft
Main Accounting		X				3	3	Final
Capital & Fixed Assets								WIP
Payroll		X				4	1	Quality reviewed and awaiting issue in draft
Council Tax		X				6	1	Quality reviewed and awaiting issue in draft
NNDR		X				5	3	Quality reviewed and awaiting issue in draft
Members Expenses								WIP
Children, Young People and Learning								
School Census		X				3	4	Final
Birch Hill Primary Follow Up 08/09 Ltd.		X				1	1	Final
Binfield Primary Follow Up 08/09 Ltd.		X				3	1	Final
Uplands Primary		X				5	8	Final
St. Margaret Clitherow Primary		X				1	4	Final

Audit	Assurance Level				Recommendations			Status
	Significant	Satisfactory	Limited	None	Priority			
					1	2	3	
Holly Spring Infant		X				8	2	Final
Cranbourne Primary			X		1	12	6	Final
Broadmoor Primary		X				5	5	Issued in draft
Ascot Heath Infant		X				2	6	Final
Sandhurst Secondary		X				4	4	Final
Ranelagh Secondary		X				3	3	Issued in Draft
Family Tree Nursery (Early Years) follow up		X				4	3	Issued in Draft
College Town Infants follow up		X			-	-	-	Final
Harmanswater follow up		X				2	3	Issued in Draft
Kennel Lane follow up		X				1	3	Final
The Pines			X		1	14	3	Issued in Draft
Adult Social Care and Health								
The Look In Follow Up 2008/09 Ltd.		X				4	2	Final
Stroke Claim Certification 0809	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Final
New Adult Social Care System – IT audit	X				-	-	-	Final
Bracknell Day Services Follow Up 2008/09 Ltd.		X				4	2	Final
Environment, Culture and Community								
New Choice Based Lettings - IT audit		X				3	1	Final
Supporting People Claim	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Final
Dog & Pest Control Follow Up 2008/09 Ltd.		X				2	1	Final
Housing and Council Tax Benefits								WIP
Sustainability			X		2	11	3	Draft issued for discussion
Highways								WIP
Waste Management								WIP

Audit	Assurance Level				Recommendations			Status
	Significant	Satisfactory	Limited	None	Priority			
					1	2	3	
Bracknell Leisure Centres								WIP
CONFIRM – IT audit								WIP

3.4 To date, limited assurance opinions have been given for 3 audits. All audits, which have generated a limited assurance opinion, will be revisited in 2010/11, to ensure successful implementation of agreed recommendations. The key weaknesses identified during the two audits with a limited assurance opinion are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
Children, Young People and Learning	<p><u>Cranbourne Primary School</u> Limited assurance was given for this audit due to one Priority 1 recommendation being raised but also because of the high number of recommendations in general. In total, one Priority 1, twelve Priority 2 and six Priority 3 recommendations were raised. The Priority 1 recommendation was to address the fact that contrary to the contractual agreement, electricity had not been re-charged to the pre-school since the contract inception in 2006. Weaknesses resulting in Priority 2 recommendations included the absence of internal financial procedures, the School Development Plan only covering 1 year instead of 3, letting charges not being reviewed since 2005, the last completed audit of the private fund being 2006/07 and two references not being obtained in the case of 1 new starter.</p>
	<p><u>The Pines School</u> This audit was carried out in-house. The report was still subject to final agreement at the time this report was produced. The audit opinion was limited assurance in this case again due to one Priority 1 recommendation and the high number of recommendations overall – eighteen including fourteen Priority 2 and three Priority 3. The Priority 1 recommendation was in response to CRB and List 99 checks not being completed for 2 supply teachers. Weaknesses resulting in Priority 2 recommendations included applications, references, evidence of CRB checks, etc not being filed on personnel files, the inventory not being updated since early 2007, blank cheques not being crossed through as cancelled, absence of checking of site controller's overtime and compliance with working time directive, cheques received not being banked for several weeks.</p>

Environment, Culture and Communities	<u>Sustainability</u> The draft report has 16 recommendations including 2 Priority 1 recommendations but is currently at discussion stage and hence a verbal update will be provided at the meeting.
---	---

3.5 At the time of writing 28 completed questionnaires had been received for audits undertaken during 2009/10. All unsatisfactory evaluations are followed up. All outstanding questionnaires will be chased up once final reports have been issued. The results are summarised as follows:

AUDIT YEAR	SATISFIED	NOT SATISFIED	TOTAL
2009/10	25	3	28
2008/09	82	7	89

3.6 Detail of questionnaires where auditees were not satisfied with the audit.

Audit title	Reason for unsatisfactory response	Audit's response
Ascot Heath	The auditor was very late arriving on the first day. She was only on site two days and only for a few hours each day. On leaving on the second day, the auditor said she would not hold an exit meeting but would be happy to discuss the report once issued. When the report was received the BFC Contract Manager was contacted about these issues and subsequently HW arranged an exit meeting. Following the exit meeting a further 2 recommendations were added to the report that had not been discussed at the exit meeting.	In future, the HW Contract Manager will ensure that the auditee is fully aware of any changes in arrival time. An exit meeting was held on the 7th July 2009. Following manager review a further 2 recommendations were appropriate which were discussed with the school via telephone (a method which is no longer used - all meetings are now held face to face). The school expressed concern with the time the auditor spent on site. Whilst it is the HW approach to complete all compliance testing on site and then take documents away for review, the general approach to school auditing will be assessed prior to the next raft of school audits. HW will engage in training/discussions with the BFC Contract Manager.
Data Quality	There were clear misunderstandings in the report which undermined the value of the draft report. Testing was omitted during the initial review and was conducted by a more senior auditor at the last minute. The draft report was delivered late and to a low quality standard. The two recommendations raised were of limited practical value. (NB these were later removed).	Misunderstanding and inaccuracies can arise, especially during lengthy, complex audits. The process of moving from a "draft" report to "final" is to, inter alia, iron out such issues. In this instance however, we have used terminology that was cited by the auditee during fieldwork It is for the auditor to decide, during the course of the audit as to what constitutes a major element of the audit. There is an ongoing process of assessing risk (before and during an audit) and the auditor will "flex" the focus of testing if necessary in accordance with this process. A report can always be delivered quicker but the auditee, in this instance, was kept aware of the status of the audit and report. Our meetings with the auditee to discuss status have been minuted and are on the audit file. The audit reported against the agreed audit brief points and no remarks were shared with us at draft stage about the overall quality.
Transport	Whilst the audit was well planned	The presentation of the poor first draft of the

	<p>and executed the process fell apart on presentation of the draft report. The first draft was full of spelling mistakes, bad grammar and incorrect information. A meeting took place with the audtee, auditor and manager. At this meeting the auditor paid little attention and made no notes of what the audtee was trying to convey. Subsequently, the audtee received a personal apology from the Partner, the report was re-written and the audtee was happy with the revised version.</p>	<p>report was due to poor version control and the HW internal protocol for version control has been re-iterated to the auditors. The auditor concerned has been reassigned and all BFC audits have been allocated to other, more experienced auditors. All comments made by the audtee were addressed and included in the amended report which has now been approved by the audtee.</p>
--	---	---

4. RISK MANAGEMENT

- 4.1 The Strategic Risk Register continues to be updated quarterly. The most recent version was approved by the Executive on 15th December 2009. Since July, risk management training has been provided to building surveyors, Adult Social Care Senior Managers and Environment Culture and Communities Senior Managers. Training is to be provided to Children, Young People and Learning Senior Managers on 12 January 2010.
- 4.2 The Risk Management Toolkit has been amended to provide more detailed guidance for managers on completing the strategic risk section of reports for decision. As part of the Service Planning process guidance has also been issued to directorates on identifying risk factors and developing strategic risk action plans.
- 4.3 In addition, internal audits are to be undertaken in each directorate in the next quarter focusing on risk management and in particular the management of operational, project and change management risk.

5. OTHER INTERNAL AUDIT ACTIVITIES

National Fraud Initiative (NFI)

- 5.1 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. During the first half of 2008/09 Internal Audit coordinated the submission of the mandatory data for the latest cycle of the exercise. Resulting matches were returned in the first few months of 2009 and are currently being investigated within service areas. Further details on the outcome of these investigations is provided in a separate report to the Governance and Audit Committee.

Fraud and Irregularity

- 5.2 In May 2009, Internal Audit were informed of a suspected theft by an employee at the Crematorium. This was subsequently admitted by the employee and Internal Audit assisted with the investigation. This indicated that the theft amounted to several thousand pounds. Following a disciplinary hearing, the employee was dismissed. The case was referred to the Police but no charges were brought.

- 5.3 In addition the following minor irregularities were reported to Internal Audit during the year:

Following on from previous scam invoices over the last 2 years, in June 2009, Internal Audit were advised of 2 scam invoice for bogus job adverts by the Environment, Culture and Communities' HR team. A Fraud Alert was issued to Bracknell All Users. In addition Trading Standards were informed so that they could notify the local Trading Standards team from where the invoices had originated and add these cases to the national Trading Standards database. Trading Standards also wrote to three organizations in June 2009 advising them that there actions could be considered an offence under the Fraud Act 2006. To date, Internal Audit has not been advised of any further cases.

In September 2009, 4 direct debit confirmation forms and payment schedules relating to magazine subscriptions were sent to the Coral Reef who referred these to Internal Audit. Internal Audit confirmed that the accounts and sort codes listed did not relate to any Council bank accounts and advised Accounts Payable that no payments should be made. It was confirmed that no previous payments had been made to this organization.

Small amounts of cash (£20 & £10) were found to be missing from Downshire Golf Club in April and November 2009. Internal Audit gave immediate advice for improvement in control.

Two forged £20 notes were paid into the Bracknell Leisure Centre in May and June 2009. The incident was reported to the police, but no more has been heard as it would be impossible to trace the source or recover the funds.

- 5.4 In addition to the work undertaken by Internal Audit on fraud and irregularities, there is a Benefits Investigation and Compliance Team. The Investigation and Compliance Team is located within the Benefits section of Housing in Environment Culture and Communities. It is therefore outside of the management of the Internal Audit Team. The Investigation and Compliance Team consists of a Senior Investigations Officer, one Investigation Officer and a Compliance Officer and is responsible for the investigation of potentially fraudulent claims for benefits. During the investigation of claims, Officers interview witnesses, take statements, carry out surveillance and interview under caution with a view to taking prosecution action. The Compliance Officer undertakes proactive visits to claimants to verify their details and confirm continuing entitlement to benefits.
- 5.5 During the period 1 April 2008 to 16 December 2009, the Compliance Officer carried out 300 proactive visits and the Team received 698 fraud referrals from data matching, anonymous phone calls/letters, the cheatchasers hotline/emails, overpayments in excess of £500 and from Housing/Council Tax and other staff at the Council. Each referral is assessed in terms of quality of information and reliability of source before determining if a full investigation is required. During this period 138 cases were investigated.
- 5.6 The Team's investigations identified overpayments totalling £118,807.47 and brought 9 successful prosecutions. In addition 27 formal cautions and 8 Administration penalties (a 30% penalty on top of overpaid benefit) were imposed in 8 cases.

GOVERNANCE AND AUDIT COMMITTEE 18 JANUARY 2010

GOVERNANCE ARRANGEMENTS Director of Corporate Services – Legal

1 INTRODUCTION

- 1.1 This report is to appraise the Committee of a proposal to abolish the Constitution Review Group and to transfer its functions to the Governance and Audit Committee.

2 SUPPORTING INFORMATION

- 2.1 When the Final Accounts Committee was re-designated as the Governance and Audit Committee it was decided that the Constitution Review Group should be retained but that the position would be reviewed. At its meeting on 14th January 2010 CRG will consider a report that CRG should be abolished and its functions absorbed within the remit of the Committee. A copy of the report to CRG is appended as Annexe A to this report.

3 EQUALITIES IMPACT ASSESSMENT

- 3.1 Not relevant.

4 STRATEGIC RISK MANAGEMENT ISSUES

- 4.1 Not relevant.

Background Papers

Report to CRG, 14th January 2009.

Contact for Further Information

Alex Jack, Borough Solicitor (01344) 355679.

Alex.jack@bracknell-forest.gov.uk

Doc Ref:

AIJ/f/reports/Governance and Audit Committee 26.1.10 – Governance Arrangements

This page is intentionally left blank

**CONSTITUTION REVIEW GROUP
14 JANUARY 2010**

**GOVERNANCE ARRANGEMENTS
Director of Corporate Services – Legal**

1 PURPOSE OF DECISION

- 1.1 This report seeks the approval of Constitution Review Group to the transfer of its functions to the Governance and Audit Committee.

2 RECOMMENDATION

- 2.1 **That the Constitution Review Group be abolished.**
- 2.2 **That the Terms of Reference of the Governance and Audit Committee 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 Assessment

- 3.3 Not relevant.

Strategic Risk Management Issues

- 3.4 Not relevant.

4 SUPPORTING INFORMATION

- 4.1 At its meeting on 12th February 2009 CRG considered a report concerning the governance arrangements of the Council. The report considered the remit of the (then extant) Final Accounts Committee and recommended that its remit be extended to cover the functions of an Audit Committee as advised by CIPFA (Chartered Institute of Public Finance Accountants) with the Committee being re-designated as the Governance and Audit Committee. The report noted that the model terms of reference for a Governance and Audit Committee proposed by CIPFA included responsibility for maintaining an overview of the Council's Constitution. However, it was suggested in the report to CRG that CRG should be retained but that after the Governance and Audit Committee has been in operation for a year the functions of the Committee and CRG should be reviewed.

- 4.2 The Governance and Audit Committee's terms of reference are shown at Annexe A to this report. Of particular relevance is the consideration that the Committee's terms of reference include monitoring arrangements to meet best practice standards for good governance and considering, approving and monitoring the implementation of the Annual Governance Statement. The functions of CRG as defined by its terms of reference are to advise the Monitoring Officer "on the development of proposals to revise and amend the Council's Constitution, its Executive Arrangements and procedure rules for consideration by the Council".
- 4.3 It is considered that the functions of CRG align themselves with the other functions of the Governance and Audit Committee and that it would be appropriate for those functions to be subsumed within the remit of the Committee. Accordingly, it is proposed that CRG be abolished and that the Committee's terms of reference should be amended to include the following:-
- "To keep under review the provisions of the Council's Constitution and to consider and formulate proposals for the amendment of the Constitution, save for those provisions of the Constitution the review of which falls within the remit of the Standards Committee".
- 4.4 The reference to the Standards Committee is required as it is that Committee which is responsible for Codes of Conduct and protocols relating to the conduct of Members and officers.

Background Papers

Report to CRG, 12th February 2009.

Contact for Further Information

Alex Jack, Borough Solicitor (01344) 355679

Alex.jack@bracknell-forest.gov.uk

Doc Ref:

Aj/f/reports/Constitution Review Group – Governance Arrangements – 14.1.10

TERMS OF REFERENCE OF THE GOVERNANCE AND AUDIT COMMITTEE

1. Membership and Meetings

- 1.1 The Governance and Audit Committee shall comprise eight Members of the Council plus one independent Member.
- 1.2 In order to promote the independence of the Committee there should be limited cross membership between the Executive or Overview and Scrutiny Commission and the Governance and Audit Committee limited to a maximum of two Members from the Executive and two from the Overview and Scrutiny Commission. Membership should also include one independent external person who is not a Bracknell Forest Councillor.
- 1.3 The Committee shall meet four times per year in accordance with a schedule agreed by Council. Additional meetings may be arranged with the agreement of the Chairman.

2. Specific Functions

The Committee's specific functions shall include but not be limited to -

2.1 External Audit

- To consider the external auditors' annual letter and ensure that appropriate action is taken in relation to the issues raised
- To approve the external audit plan
- To comment on the scope and depth of the external audit work and to ensure it gives value for money and to make recommendations as appropriate
- To consider any other reports by the external auditors
- To liaise with the Audit Commission over the appointment of the Council's external auditor
- To identify areas of potential work that may be appropriate for the external auditors

2.2 Internal Audit

- Delivery of an adequate and effective system of internal audit
- To consider the Head of Audit and Risk Management's annual audit opinion and the level of assurance given over the Councils corporate governance arrangements
- To consider regular reports summarising internal audit activity and make recommendations as appropriate
- To consider regular reports on the performance of internal audit provider as presented by the Head of Audit and Risk Management
- To consider and approve the Internal Audit Strategy
- To approve the annual internal audit plan, ensuring that there is sufficient and appropriate coverage
- To consider any other reports the Chief Internal Auditor may make to the Panel.

2.3 Risk Management

- To monitor the adequacy of procedures and processes in place to manage risk
- To seek assurances that action is being taken on risk related issues
- To ensure that assurance statements, including the Annual Governance Statement, properly reflect the risk environment

2.4 Governance

- To monitor the adequacy of arrangements in place to meet best practice standards for good governance
- To consider and approve the Annual Governance Statement.
- To ensure that appropriate action is taken with respect the issues raised in the Annual Governance Statement
- To review any issues of governance referred to the Committee
- To review and monitor the Anti-Fraud and Corruption Policy
- Review procedures for complaints

2.5 Accounts

- To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

3. **Delegated Function**

- 3.1 The management of the internal audit service is delegated to the S151 officer.

4. **Review of Terms of Reference**

- 4.1 These Terms of Reference will be reviewed on an annual basis. Any changes proposed shall be submitted to Council for approval.

GOVERNANCE AND AUDIT COMMITTEE 18 JANUARY 2010

RELATED PARTY TRANSACTIONS Director of Corporate Services – Legal/Borough Treasurer

1 PURPOSE OF DECISION

- 1.1 The purpose of this report is to consider whether Members of the Council should be required to complete an annual declaration of “Related Party Transactions” in the same fashion as senior officers are required to.

2 RECOMMENDATION

- 2.1 **That Members of the Council be required to complete an annual declaration of Related Party Transactions.**

3. ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

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

Borough Treasurer

- 3.2 The Borough Treasurer is the co-author of this report.

4 EQUALITIES IMPACT ASSESSMENT

- 4.1 Not relevant.

5 STRATEGIC RISK MANAGEMENT ISSUES

- 5.1 Not relevant.

6 SUPPORTING INFORMATION

- 6.1 The action plan appended to the Annual Governance Statement approved by the Committee in June 2009 identified that consideration would be given to whether Members of the Council should be required to complete an annual declaration of Related Party Transactions (“a Declaration”).

- 6.2 For a number of years senior officers of the Council (the Chief Executive, Directors and Chief Officers) have been required to complete annually a declaration. A copy of the form of declaration and guidance notes is appended to this report as Annexe A. Although the front page of the guidance refers to Members as well as officers, in practice forms of declaration have neither been circulated to nor completed by Members.

6.3 Declarations are sought in order to secure compliance with Financial Reporting Standard 8 (“FRS8”) issued by the Accountant Standards Board which seeks to implement International Accounting Standard 24. Those accounting standards are couched in terminology appropriate to the private rather than to the public sector but the accounting standards are now being sought to be replicated in the public sector.

6.4 In relation to FRS8 the Accounting Standards Board advised that the objective is as follows:-

“To ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may be affected by the existence of related parties and by material transactions with them.

Two or more parties are related when at any time during the financial period:-

- (a) one party has directly or indirectly control over the other party; or
- (b) the parties are subject to common control from the same source; or
- (c) one party has influence over the financial and operating policies of the other party to the extent that that other party might be inhibited from pursuing at all times its own separate interest; or
- (d) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest

The standard requires the disclosure of:-

- (a) information on related party transactions; and
- (b) the name of the party controlling the reporting entity and, if different of the ultimate controlling party whether or not any transactions between the reporting entity and those parties have taken place”.

6.5 CIPFA (the Chartered Institute of Public Finance Accountants) has advised that both senior officers **and** Members are considered to be “related parties” (i.e. related to the Council) for the purposes of FRS8. CIPFA also advises (in accordance with guidance from the Accounting Standards Board) that Members of the close family or the same household as senior officer or Member should also be considered to be a related party.

6.6 Examples given of declarable transactions are:-

- purchases or sales of goods, property and other assets
- rendering or receiving of services
- leases
- loans, provision of guarantees or collateral
- settlement of liabilities

6.7 It is accepted that to some degree there will be an overlap between a requirement of Members to make a declaration with their duty to register Personal Interest under the Code of Conduct for Members. However, requirements to make a disclosure under

the Code and under a declaration would not be co-terminus and it cannot be sustained that disclosure under the Code secures compliance with FRS8

- 6.8 A recent internal audit report identified as a weakness in the Council's Governance Arrangements the failure to comply with FRS8 by omitting Members from those required to make a declaration. The Auditors report contained the following:-

“Recommendations

All Councillors, Members of CMT and officers responsible for managing budgets should make an annual declaration of Related Party Transactions in respect of themselves and their family members/close relatives.

The requirement for Members and chief officers to declare Related Party Transactions has been considered by the Accounting Standards Board as fundamental to the presentation of the Council's published accounts. Advice issued by the Audit Commission requires the completion of a signed declaration on an annual basis.

Rationale

The purpose of this disclosure is to provide assurance to the Council's stakeholders that any material transaction between the organisation and those in a position to influence its decision are properly disclosed. Arrangements for the disclosure of interest are governed by the Council's Code of Conduct. The Council's register of Member's Interest is considered in the disclosure of Related Party Transactions but at present there is no requirement for Members to complete a signed declaration. A questionnaire was circulated to all first and second tier officers after 31st March 2007 but this was not extended to Members.

Where Members and chief officers are not required to complete an annual declaration concerning Party Related Transactions there is a risk that the Council is unaware of any perceived or actual conflict of interest and is therefore unable to provide a full and open disclosure to stakeholders”.

- 6.9 In light of the guidance alluded to above it is recommended that Members should join with senior officers in making an annual declaration.

Background Papers

Guidance on FRS8 and IAS24 issued by the Accounting Standards Board and Deloitte.

Contact for Further Information

Alex Jack, Borough Solicitor (01344) 355679.
Alex.jack@bracknell-forest.gov.uk

Chris Herbert, Borough Herbert (01344) 355694..
Chris.Herbert@bracknell-forest.gov.uk

Doc Ref:

AIJ/f/reports/Governance and Audit Committee – 26.1.10 – Party Related Transactions

This page is intentionally left blank

Related Party Transactions for the Financial Year 2008/09

Financial Reporting Standard 8 (FRS8) on related parties was introduced in 1995. This standard requires the Council's final accounts to contain sufficient disclosures to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Disclosure of related parties and material transactions are required and external auditors check our compliance.

Who does this effect?

The guidance relates to Members of the Council, Chief and Senior Officers and includes;

- Members of their close family, or the same household
- Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

What is a related party transaction?

The transfer of assets and liabilities or the performance of services between a related party and the Council irrespective of whether a charge is made.

Examples of related party transactions include:

- The purchase, sale, lease, rental or hire of assets between related parties;
- The provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- The provision of services to a related party;
- Transactions with individuals who are related parties of an authority.

Relationships giving rise to Related Parties

Transactions do not in themselves create a related party relationship, there has to be some element of control or influence by one party over another or by a third party over the two parties. This occurs when at any time during the financial year:

- 1) one party has direct or indirect control over another party, or
- 2) the parties are subject to common control from the same source, or
- 3) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- 4) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Could I therefore ask that you answer the following questions, which are a combination of the Employee Code of Practice and FRS8:

Have

- You; or
- Any member of your family or household; or
- Any partnership, company, trusts or other entity in which you or a member of your family or household has controlling interests.

Have:

- a) Any relationship of a business or private nature with external contractors or potential contractors; or
- b) Any financial or non- financial interest which could conflict with the Council's interests (including voluntary sector organisations who receive a grant from or have a contract or service level agreement with the Council): or
- c) Any official relationship with contractors (e.g. contract supervision) with which you have had a relationship in a private or domestic capacity :or
- d) Had any involvement in any other transaction that could be classified as a related party transaction:

YES	NO

If the answer is yes to any of the above questions, please give details below.

.....

.....

.....

.....

.....

Signed : _____ Date: _____

Position: _____

.....

Could you please return this questionnaire to Verity Pearce in Corporate Services Finance by the 13th April 2009. Please note that to satisfy the external audit process, a written response is required even if only to notify a nil return.

GOVERNANCE AND AUDIT COMMITTEE 18 JANUARY 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS (Borough Treasurer)

1 PURPOSE OF DECISION

- 1.1 To inform the Committee of the implications of the pending introduction of International Financial Reporting Standards.

2 RECOMMENDATION

- 2.1 That the Committee note the implications of the pending introduction of International Financial Reporting Standards (IFRS).

3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 3.1 Nothing to add to the report.

Borough Treasurer

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

Equalities Impact Assessment

- 3.3 There are no equalities issues arising from the introduction of IFRS.

Strategic Risk Management Issues

- 3.4 The only significant risk for the Council is being unable to implement IFRS within the required timescale and receiving a qualified audit opinion on its accounts as a consequence. This risk will be mitigated by:

- Using a detailed project plan to prioritise key areas of work
- Providing staff with comprehensive training on IFRS
- Utilising external advisors to support the Council with the most technically complex aspects of IFRS
- Close and regular liaison with other authorities and the district auditor.

4 SUPPORTING INFORMATION

Reasons for Implementation

- 4.1 The Chancellor's 2007 Budget announcement introduced IFRS-based financial reporting for government and public sector accounting from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health will be 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).
- 4.2 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.
- 4.3 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.

Background Information

- 4.4 Under the Accounts and Audit (England) Regulations 2003 (as amended) the Council's accounts must comply with proper practice. The regulations define this proper practice as the Local Authority Statement of Recommended Practice (SORP). Currently, the SORP complies with UK Generally Accepted Accounting Practice and not IFRS. The Chartered Institute of Public Finance and Accountancy (CIPFA) published the first accounting code of practice for local authorities based on IFRS on 18 December 2009. The code applies to accounting periods commencing on or after 1 April 2010.
- 4.5 The transition will affect many areas of the organisation, and will impact on budgeting, investment decisions, performance targets – as well as financial reporting, process and system changes may also be needed. The impact of many of the IFRS's will be presentational with new terminology and statements being introduced and will significantly increase the level of disclosure notes required in the Statement of Accounts.
- 4.6 There are however a number of areas which will have a significant impact on the accounts and a small number which could potentially have an impact on the Council's general fund reserve or increase the demands on the Local Taxpayer. CIPFA's IFRS development programme is looking at the areas which might affect the level of Council Tax and where any potential impacts are identified the Government will consult on the introduction of regulations to mitigate these. For example, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 are currently being consulted on and include amendments to mitigate the impact of lease reclassifications, on balance sheet PFI arrangements and accruing for short term employee benefits on the income and expenditure account.
- 4.7 The adoption of IFRS is an authority wide project. IFRS is not just a technical accounting issue and to be successfully implemented, support from the following teams is also likely to be required at some stage:

- Departmental Finance teams
- Human Resources
- Procurement
- Property and
- Legal

Significant Changes

4.8 In common with most local authorities, the most significant areas of change for Bracknell Forest are as follows:-

- Employee Benefits
- Property, Plant & Equipment
- Leases, including Investment Property
- Contracts/Financial Instruments
- PFI (although lead by Reading BC)

Because the 2009/10 comparable figures for the 2010/11 accounts have to be produced on an IFRS basis the effective date of transition is April 1st 2009 and the 2009/10 accounts will need to be restated in an IFRS format.

Employee Benefits

4.9 Short-term benefits such as untaken annual leave and carried forward flexi leave now need to be identified and a monetary figure based on this put into the accounts at the end of each financial year as a liability. We therefore need to collect this data as of 31st March 2009 and each year end going forward.

Property Plant and Equipment

4.10 The valuation methods used have seen some changes and also some assets, such as buildings, now need to be split out into their component parts within the balance sheet. For example the components of Time Square might include the lift system, roof and the air conditioning system.

Leases

4.11 All of our leases need to be reviewed to ensure that they are classified correctly under the new guidance as either finance or operating leases. This may result in more finance leases being recognised. For property leases this may require the land and buildings element of the lease to be separated as only the building element is likely to be a finance lease.

Contracts

4.12 A full review of all our major contracts needs to take place in order to identify if any contain within them lease type arrangements. If this is the case, the lease will need to be separated out from the host contract and classified as either a finance or an operating lease. An example of this could be the Council's refuse collection contract, if the contractor provides new vehicles which have in substance been leased, these will need to be separately identified within the accounts.

PFI

- 4.13 The only PFI contract the Council has is the waste disposal scheme with Reading and Wokingham. Reading Borough Council has taken the lead on the financial side of this project and will be preparing the restatement accounting adjustments for all three Councils. We will review Reading's proposed approach but in general will rely on their accounting advice to ensure a consistent approach between the three authorities concerned.
- 4.14 Initial work has confirmed that this scheme meets the control tests requiring the associated assets to be recognised in the Council's balance sheet. Although this is relevant under IFRS, this change has actually been brought in under the current SORP and is, therefore, effective for the financial year 2009/10.

Bracknell Forest's Approach

- 4.15 The Council used KPMG to assist with the preparation of a baseline report to identify those areas within the accounts that will be affected as a result of the transition to IFRS. This was turned into a detailed project plan, prioritising those areas that will see greatest change within the Council. Initially, work has focussed on employee benefits and leases.
- 4.16 In addition to this a pan Berkshire group has been established, lead by Wokingham, to ensure authorities adopt similar approaches in their transition to IFRS and to provide mutual support if authorities encounter any difficulties with the transition.

Background Papers

IFRS Baseline Assessment (KPMG)

Contact for further information

Alan Nash – 01344 352180

Alan.nash@bracknell-forest.gov.uk

Arthur Parker – 01344 352158

Arthur.parker@bracknell-forest.gov.uk

Laura Shaw – 01344 352273

Laura.shaw@bracknell-forest.gov.uk

Doc. Ref

F:\IFRS\Governance and Audit Committee (Jan 09).doc