



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Monday 29 March 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, Mr G S Anderson and Mrs Hayes

### **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

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Published: 30 March 2010



**Governance & Audit Committee**  
**Monday 29 March 2010, 7.30 pm**  
**Function Room, Fifth Floor, Easthampstead House, Town**  
**Square, Bracknell**

**AGENDA**

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1. **Apologies 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 Meeting 18 January 2010**  
To approve as a correct record the minutes of the meeting of the Committee held on 18 January 2010. 1 - 6
4. **Treasury Management Report**  
The report details the new requirement contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice. 7 - 40
5. **District Audit**  
The External Auditor has produced several reports as part of the 2009/10 Audit which need to be considered and endorsed by the Committee. The External Auditor will attend the meeting and will present these reports to the Committee. 41 - 84
6. **2010 Code of Audit Practice and Statement of Responsibilities**  
The purpose of this report is to inform the Governance and Audit Committee of the latest code of audit practice and statement of responsibilities. 85 - 140
7. **Audit Plan 2009/10**  
The purpose of this report is to set out details of the annual external audit fee and annual inspection fee for 2010-11 for the Governance and Audit Committee to note. The External Auditor will attend the meeting to answer any questions. 141 - 152
8. **Internal Audit Strategy and Plan 2009/2010**  
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 Strategy and Internal

Audit Plan for 2010/11.

9. **Related Party Transactions**

The report outlines the draft guidance and annual declaration of Related Party Transactions prior to its circulation to all Members.

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10. **Annual Governance Statement**

The purpose of the report is to inform the Committee of the process for preparing the Annual Governance Statement and to consider nominating a Member to participate in the work of the Corporate Governance Working Group.

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11. **Future meeting dates**

To note the future meeting dates at 7.30pm:

- 29 June, 21 September, 23 November and 22 March 2011.

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**GOVERNANCE & AUDIT COMMITTEE**  
**18 JANUARY 2010**  
**7.30 - 9.55 PM**

**Bracknell Forest Borough Council:**

Councillors Ward (Chairman), Thompson (Vice-Chairman), Beadsley, Blatchford, Edger, Leake and Mrs Ballin (Substitute)

**Present:**

**Independent Members:**

Gordon Anderson

**21. Apologies for Absence and Substitute Members**

Apologies were received from Councillor Walker and Councillor MacCracken, for whom Councillor Mrs Ballin substituted.

**22. Declarations of interest**

There were no declarations of interest.

**23. Minutes of previous meeting**

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

**Matters arising**

Under item 17, the Committee asked what fee had been negotiated with the District Auditor, and was told £255,200.

**24. Annual Audit and Inspection Letter**

Alan Nash, Chief Officer: Financial Services introduced the annual audit inspection letter. He told the meeting that the letter summarised the 2008/2009 Audit, and gave four recommendations which it was proposed would be picked up by Directors to go into their 2010/2010 business plans.

Phil Sharman, District Auditor, gave background to the letter. He told the meeting that the Audit Commission had decided that Audit and Inspection reports would be published separately in future. The audit report was available earlier this year than in previous years, and had been agreed with officers in December 2009. The financial statements on page 11 of the agenda papers had been re-approved at the last meeting of Governance and Audit, and the overall outcome was that in spite of a challenging year, he had been able to give an unqualified opinion on the financial statements.

Under value for money and use of resources, which was a new part of the report, the District Auditor had been able to give an unqualified opinion as all requirements had

been met. The Council had also performed well in managing use of natural resources. The Council continued to focus on value for money, procurement had been strengthened, and risk management developed. Data quality had also been strengthened and governance arrangements were being strengthened.

The recommendations in the letter gave potential areas for improvement. There were common areas across three East Berkshire unitary authorities, and partnership working was in place, giving opportunities for further development. An impairment for the Icelandic banks had been provided for in the 2009/2009 accounts. Treasury management had been strengthened.

On the subject of his fee, Mr Sharman told the meeting that it was a significant investment of resource, but represented less than 0.5% of Council spending. There was a statutory requirement that the fee should cover only the cost of services, with no element of profit.

The Chairman thanked the District Auditor for his comments, and asked for questions. He was asked whether the four-point scale, of which the Auditor had spoken, consisted of equal divisions or a matrix. He was told that Level 1 was the lowest, and it would be rare for a unitary authority of this size to have any Level 1 scores; Level 2 indicated that the Council met professional standards; Level 3 met professional standards, arrangements were embedded, and were yielding positive outcomes. Level 4 was awarded for national exemplars, and there were very few of these. The District Auditor told the meeting that it was purely a judgement, but from the first year of scoring on these levels, there was a spread of scores.

The Committee drew the Auditor's attention to paragraph 30 of the letter, noting that the Auditor had recognised the Council's consistently-managed spending over the past 11 years, and asked whether there were exemplars the Council could learn from. In response, he was told that there was more detail on page 21 under Appendix 1 where the KLOE 1.2 score was already at Level 3. The Audit Commission intended to publish the results of those at Level 4 as examples of good practice.

The Committee asked what outcomes were the auditors seeking, which they didn't find, and the Auditor explained that achieving level 2 was difficult in the new system, but he recognised that the Council wanted to aspire to reach higher level scores. He suggested that for data quality the Council had recognised weaknesses in that some data were not very reliable, and were addressing this issue. A positive outcome would be to see these fairly stated in relation to outcome, with error-free published data. The system around caring had produced some unreliable results when tested, and some other arrangements could be strengthened. He explained that the Council could not move to another level when there were still some lower level issues to address. In 2009/2009 there was no data quality strategy in place, but he would expect that this year the data strategy would begin to bite and there would be good outcomes. He would be happy to supply a schedule of outcomes which the Audit Commission was seeking. The Committee was keen to have a list of outcomes as they were concerned about the areas of data which needed improvement, and suggested that there needed to be some specific pointers to help bring this area up to Level 3. The Committee emphasised that although it was important that good records were kept, it was of paramount importance that care was being delivered in a timely fashion. He asked whether the judgments were made against a process or against an outcome.

The District Auditor thanked the members for their comments, and said that it was clear that as a Council Bracknell Forest was ambitious to progress. There was an Audit Commission framework which was used which posed the question 'if Council

got the basics right, what outcomes would we expect to see?' For high-performing councils there was an additional outcome list. Data quality was an example he had used earlier in the discussion, but there were over 100 indicators nationally, of which each Council selected around 35. The Auditors chose to examine six of these in depth. He told the meeting he would bring to the next meeting a report, currently with officers, on what had been examined. With regard to financial management, the Council was already doing work to put in a documented strategy; there was a need for a 3-5 year revenue strategy and a 10-12 year capital strategy. Good progress had been made. He suggested that such strategies could set out broad parameters, although the Council needed to maintain some flexibility.

The Committee asked about Recommendation 1, bullet point 3, on the subject of monitoring financial performance of partnerships. The Auditor told him that for example, community safety would need input financially from several groups within a partnership. The Committee was reminded that a Partnership Scrutiny Group had been set up to monitor this and a recent report indicated that much of this monitoring was already being done. They felt the Council was close to having achieved this, and there was plenty of dialogue through scrutiny on how our partnerships worked.

The Auditor believed that arrangements needed to be in place to demonstrate to auditors that these systems were working. Costs were measured by looking at the systems, but through benchmarking and comparison the auditors found it was used in some areas but not in all – they did not see consistent comparisons being made.

Under Item 43, the Committee asked what was meant by the Standards Committee being reactive. It had a judicial-type function, and monitoring compliance was policing. In the ensuing exchange, the Auditor explained that it meant that the auditors would want to see promotion of training relative to the Committee's work, and monitoring compliance of Codes of Conduct and protocols. A guidance framework could be shared with Standards Committee.

With regard to items 48 and 49, the Auditor told the meeting that he had undertaken a review of how effectively partners in East Berkshire were working together to address issues of health inequalities. He stressed that health needs across the three unitary authorities would be different, and all authorities needed to consult with each other. Partnership working allowed discussion to take place, but fair shares were not necessarily equal shares. The Committee believed this to be a flawed argument.

In response to the recommendations in the report which introduced the auditor's letter, Cllr Ward proposed and Cllr Thompson seconded. The Committee pointed out that it had no option but to note the report, but felt that they should express reservations on some of the framework. An amendment was suggested which added qualification and asked for clarification.

The committee **RESOLVED** that the report and Auditors' letter be noted, but asked for clarification concerning the Standards Committee (para 43), Health issues (para 48 to 57 and associated recommendations) and the issue of flawed data (para 42).

## 25. **Internal Audit Assurance report**

Sally Hendrick, Head of Audit and Risk Management, introduced Jay Hussain from HW Controls and Assurance, the Council's contractor for internal audit. She then gave an overview of the internal audit assurance report for April to December 2009, which had been circulated, and told the meeting that individual internal audits in the Plan would be delivered by HW Controls and Assurance. Twenty-seven reports had been finalised, 12 had been issued in draft, and six were going through quality review

and in 8 cases audit work was in progress. She then drew members' attention to the Limited Assurance section on page 31/32. Under Environment, Culture and Communities, "Sustainability", Mr Hussain explained that this issue was about CRB checking of volunteers working on open spaces. It was unclear what CRB checks have been made. In response to questions about the need for volunteers to be CRB checked, Mr Hussain told the meeting that under the Protection of Children and Vulnerable People policy, it was deemed necessary for volunteers to be checked if they were likely to make contact with children or vulnerable people in the course of their work.

The meeting discussed the issue of financial control at The Pines School and concluded that the school needed to ensure that enough time was given to the Bursar for all finance work to be done on time. The decision on this would rest with the Governing Body, and the Chairman asked that a message be conveyed to The Pines School that the Governance and Audit committee expected this to be resolved very quickly.

In response to a question about recovery of overpayments, the Head of Audit and Risk Management told the meeting that it would be deducted from future payments, and the Chief Officer: Financial Services reported that a small proportion of the loss would be born by the Council. The Head of Audit and Risk Management offered to ask Benefit Fraud Investigators to attend a future meeting of the Governance and Audit Committee, and this was agreed.

The Chairman thanked Sally Hendrick and Jay Hussain for their report.

The committee **RESOLVED** to note the report.

26. **Governance Arrangements**

The Borough Solicitor introduced this information item which proposed that the functions of the Constitution Review Group be transferred to the Governance and Audit Committee. The Constitution Review Group had agreed at their meeting that the group should be abolished. The Committee unanimously agreed to the proposal.

27. **Related Party Transactions**

The report on Related Party Transactions had been circulated, and the Borough Solicitor introduced it. The recommendation was that Members of the Council be required to complete an annual declaration of Related Party Transactions in the same way that senior officers were required to do. He told the meeting that this was a transparency issue, and the form was not onerous. The Committee asked how they would know if they had to declare a matter relating to a relative or a company in which they had a shareholding, and the Borough Solicitor explained that it only required filling in those areas which were within the Member's own knowledge. The Committee accepted in principle that all Members should have to complete a declaration of Related Parties Transactions but felt that the current form and guidance was too ambiguous.

It was unanimously **RESOLVED** in principle that Members of the Council be required to complete an annual declaration of Related Party Transactions, subject to the form being revised and clarified.

28. **International Financial Reporting Standards**



The Chief Officer: Financial Services introduced this information item concerning the implications of the pending introduction of International Financial Reporting Standards, which had been circulated. He explained that this was an attempt to bring private sector financial standards into local authority finance.

The Committee **RESOLVED** to note the report.

29. **Future meeting dates**

Future meetings of the Governance and Audit Committee will take place on

29 March 2010

29 June 2010

21 September 2010

23 November 2010

22 March 2011

**CHAIRMAN**

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## GOVERNANCE AND AUDIT COMMITTEE 29 MARCH 2010

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### TREASURY MANAGEMENT REPORT (Borough Treasurer)

#### 1 PURPOSE OF DECISION

- 1.1 The purpose of this report is to satisfy the new requirement contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice to have a nominated responsible body, being the Governance and Audit Committee, examine and assess the effectiveness of the Council's treasury management strategy and policies.

#### 2 RECOMMENDATION(S)

##### 2.1 That the committee specifically consider

- The Capital Prudential Indicators and Limits for 2010/11 to 2012/13 contained within Annex A
- The Minimum Revenue Provision Policy contained within Annex B
- The Treasury Management Strategy Statement and the Treasury Prudential Indicators contained in Annex C
- The Authorised Limit Prudential Indicator contained in Annex C
- The Investment Strategy 2010/11 to 2012/13 and Treasury Management Limits on Activity contained in Annex D
- The Treasury Policy Statement contained in Annex F

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

##### Borough Solicitor

- 3.1 Nothing to add to the report.

##### Borough Treasurer

- 3.2 Interest rates reflect the risk associated with investments and there can be no absolute guarantee for any investment. However the Council has sought in the past to protect the return of capital wherever possible. The Government has issued a consultation on new guidance on treasury management and this report incorporates those recommendations.

##### Equalities Impact Assessment

- 3.3 None Required

##### Strategic Risk Management Issues

- 3.4 The report and attached Annexes deal directly with the strategic management of risk associated with the treasury management service of the authority.

## 4 SUPPORTING INFORMATION

### Treasury Management

4.1 The Code of Practice defines treasury management as:

*The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.*

4.2 The Local Government Act 2003 requires a local authority to “have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify”.

4.3 The guidance issued by the Communities and Local Government (CLG) is currently under consultation however the key principles outlined in the consultation document are likely to be upheld.

4.4 Two Codes of Practice issued by CIPFA (CIPFA Prudential Code and CIPFA Treasury Management Code of Practice (the Code)) contain investment guidance which compliments the CLG Guidance and as such Local Authorities are required to have regard to these Codes. These were revised in November 2009 with a key change of increasing Members responsibility in this area, particularly in the examinations and assessment of the effectiveness of the treasury management strategy and policies.

4.5 The Code recommends that a responsible body be nominated by the Council and having examined and assessed the effectiveness of the treasury management strategy and polices recommend them to Council. However the new legislation and guidance was issued very late in the budget cycle and as such Council approved the necessary strategies and policies at its meeting on March 3<sup>rd</sup> and nominated the Governance and Audit Committee as the responsible body. The intention was for the Governance and Audit Committee to review these strategies and policies and to have the opportunity to report back as part of the mid-year review of the Council's treasury management activities.

4.6 Going forward it will be necessary to bring forward the timing of these strategies and policies to ensure that the Governance and Audit Committee have sufficient time to assess the effectiveness of the treasury management activities of the Council before recommending the strategies and policies to the Executive and Council as part of the normal budget cycle.

### CLG Guidance and CIPFA Code of Practice

4.7 In light of the banking crisis in 2008 and the continued economic uncertainty, CIPFA has amended the Code of Practice. It is a requirement of the Council to adopt the revised Code and the Treasury Policy Statement. The revised Code has emphasised a number of key areas.

- The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how this will be carried out.

- Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- Credit ratings should only be used as a starting point when considering risk.
- Borrowing in advance of need is only permissible where there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- There should be a mid-year review of treasury management strategy and performance to highlight any areas of concern since the original strategy was approved.
- Each Council must delegate the role of assessing the effectiveness of the treasury management strategy and policies to a specific named body.

4.8 The Council is required under Section 15 of the Local Government Act 2003 to approve an Annual Investment and Treasury Management Strategy before the start of each year. These reports fulfil four key legislative requirements;

- The reporting of the Prudential Indicators setting out the expected capital activities.
- Setting out the Council's Minimum Revenue Provision (MRP) Policy outlining how the Council will pay for capital assets through revenue each year.
- The Treasury Management Strategy Statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.
- The Annual Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

4.9 Each of these areas is examined in more detail below.

#### Capital Prudential Indicators

4.10 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity. The key indicators are

- The Council's capital expenditure plans
- The Council's borrowing need – Capital Finance Requirement (CFR)
- Ratio of financing costs to net-revenue stream
- Incremental impact of capital investment on Council Tax

4.11 These are attached in Annex A

#### Minimum Revenue Provision (MRP)

4.12 The concept of the MRP was introduced as part of the change to the Local Government Capital Finance System in April 1990. This required local authorities to assess their outstanding debt and to make an annual charge to revenue through the General Fund. The broad aim of a prudent provision is to ensure that the debt is repaid over a period which is reasonably commensurate with that over which the capital expenditure provides benefits. It is a requirement that Council approve an annual MRP Statement. This is attached in Annex B.

### Treasury Management Strategy

- 4.13 The Treasury Management Strategy is an important part of the overall financial management of the Council's affairs. The Council's treasury activities are strictly regulated by statutory requirements and a professional Code of Practice. The Code requires an annual strategy to be reported to Council outlining the expected treasury activity and explaining both the risk and the management of the risks, associated with the treasury service.
- 4.14 This strategy covers:
- The Council's debt and investment projections.
  - The Council's estimates and limits on future debt levels.
  - The expected movement in interest rates.
  - The Council's borrowing and investment strategies.
  - Treasury performance indicators.
  - Specific limits on treasury activities.
- 4.15 The Treasury Management Strategy for 2010/11 is attached in Annex C

### Investment Strategy

- 4.16 The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments first and ensuring adequate liquidity second – the investment return being a less important objective. This is consistent with the Council's approach to investments in the past. However the revenue impact of interest is not insignificant. Even though it is a lower priority it is an important component of the Council medium term financial strategy.
- 4.17 The current investment climate has one over-riding risk consideration – that of counterparty security risk. The Investment Strategy for 2010/11, attached in Annex D, sets out the category of investment types the Council will invest in, and the criteria for choosing investment counterparties.
- 4.18 The Borough Treasurer will maintain a counterparty list in compliance with the criteria laid out in the Investment Strategy. This rating criteria use the "lowest common denominator" approach of selecting counterparties. For example if an institution is rated by two rating agencies, one meets the Council's criteria, the other does not, then the institution will fall outside the lending criteria.
- 4.19 In accordance with CLG guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which two categories, Specified or Unspecified, the investment falls into.
- 4.20 Specified investments offer high security and high liquidity and are deemed to be;
- Denominated in Sterling
  - Not long term investments (ie less than 365 days)
  - Have a high credit rating or are made with the UK Government or other Local Authority
- 4.21 An over-riding investment limit of 364 days has been approved as part of the Investment Strategy, alongside limiting investments in only highly rated or UK

Government and other local authorities. As such all investments entered into by the Council in 2010/11 will be deemed to be Specified investments with the exception of any overnight deposits held in the Council's own bank account operated by LloydsTSB which currently falls outside the credit criteria set by the Council.

- 4.22 Credit rating information is supplied by the Council's treasury consultants. Any counterparty failing to meet the criteria would be omitted from the counterparty list. The Council supplements its credit rating info with additional market information that is applied to compare the relative security of differing investment counterparties – for example Credit Default Swaps.
- 4.23 The day-to-day decision making on treasury services is supported by the Treasury Management Panel, an officer group that meets regularly to evaluate market information and to review performance and future lending strategies. This Panel is attended by senior officers of the Council and its treasury consultants.
- 4.24 The security of the Council' investments are also protected using time and monetary limits for institutions on the Council's counterparty list.
- 4.25 The criteria are clearly laid out in the Investment Strategy and provide a pool of high quality investment counterparties. The counterparty list associated with the 2010/11 Investment Strategy is attached in Annex E.

#### Treasury Policy Statement

- 4.26 The over-arching document is the Treasury Policy Statement which recognises the Council's adoption of the Code of Practice. This policy sets out that the Council recognises and achieves the need for;
- Formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management activities.
  - The effective management and control of risk as prime objectives and that responsibility lies clearly within the organisation.
  - The pursuit of value for money in treasury management.
- 4.27 The amended policy is attached in Annex F.

#### Assessment of Treasury Management

- 4.28 In line with the Code the Governance and Audit Committee are requested to specifically consider
- The Capital Prudential Indicators and Limits for 2010/11 to 2012/13 contained within Annex A
  - The Minimum Revenue Provision Policy contained within Annex B
  - The Treasury Management Strategy Statement, and the Treasury Prudential Indicators contained in Annex C
  - The Authorised Limit Prudential Indicator contained in Annex C
  - The Investment Strategy 2010/11 to 2012/13 and Treasury Management Limits on Activity contained in Annex D
  - The Treasury Policy Statement contained in Annex F

Background Papers

CIPFA Code of Practice on Treasury Management in the Public Sector (revised 2009)

CIPFA Prudential Code

Communities and Local Government - Local Authority Investments

Treasury Management report – Council March 2010

Contact for further information

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## **The Capital Prudential Indicators 2010/11 – 2012/13**

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2012/13.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2010/11 to 2012/13 complements these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

### **The Capital Expenditure Plans**

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the impact of the recession on the property market, similarly the proceeds from the Right-to-Buy sharing agreement with Bracknell Forest Homes will also be impacted on by the wider economy.

The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure £m	2009/10 Original	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Capital Expenditure	50,326	49,851	36,098	19,213	16,054
<b>Financed by:</b>					
Capital receipts	3,000	1,800	3,000	3,000	3,000
Capital grants	40,651	40,651	24,649	6,832	3,928
Capital reserves	0	0	0	0	0
Revenue	0	0	0	0	0
<b>Net financing need for the year</b>	<b>6,675</b>	<b>7,400</b>	<b>8,449</b>	<b>9,381</b>	<b>9,126</b>

### The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

The Council is asked to approve the CFR projections below:

£m	2009/10 Original	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>7,184</b>	<b>9,118</b>	<b>17,202</b>	<b>25,395</b>	<b>33,505</b>
<b>Movement in CFR</b>	<b>6,654</b>	<b>7,328</b>	<b>8,084</b>	<b>8,193</b>	<b>8,110</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	6,675	7,400	8,449	9,381	9,126
Less MRP/VRP and other financing movements	21	72	365	688	1,016
<b>Movement in CFR</b>	<b>6,654</b>	<b>7,328</b>	<b>8,084</b>	<b>8,193</b>	<b>8,110</b>

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

### Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Actual and Estimates of the ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2009/10 Original	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Ratio	-1.81%	-1.36%	-0.89%	-0.65%	-0.42%

The estimates of financing costs include current commitments and the proposals in the Capital Programme Budget report.

Incremental impact of capital investment decisions on the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	Original 2009/10	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12	Forward Projection 2012/13
<b>Council Tax - Band D</b>	3.08	3.31	3.87	4.07	4.18

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### **Minimum Revenue Provision (MRP) Policy Statement**

The concept on the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to make an annual charge to the General Fund of 4% of the General Fund Debt.

These regulations have now been amended and Department for Local Government & Communities (DCLG) issued new regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

It is a requirement of these new regulations that full Council approve an annual MRP Statement of its policy on making MRP.

As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant the Council’s borrowing need (its Capital Financing Requirement) will be positive and an MRP will be required. In practice the Council is unlikely to need to borrow externally in the medium term as it has sufficient revenue investments, arising from the Council’s reserves and balances to cover this expenditure. However it will still need to make a charge to revenue for this “internal borrowing”.

The move to International Financial Reporting Standards (IFRS) in local government is expected to bring more PFI schemes on balance sheet and to result in some leases (or parts of leases) being reclassified as finance lease instead of operating leases. These contracts would become subject to the requirement to provide MRP. IFRS requires these changes to be accounted for retrospectively. With the result that an element of the rental or service charge payable in previous years will be taken to the balance sheet to reduce the liability. On its own this change would result in a one-off increase to the capital financing requirement, and an equal increase in revenue account balances. This is not seen as a prudent course of action and as such the guidance recommends the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

The guidance sets out four options for making MRP. It envisages that authorities can distinguish between borrowing that is “supported” (through the RSG system) and other “unsupported or prudential” borrowing. The first two methods should only be used for “supported” borrowing

- 1) The regulatory method. This involves following the existing practice outline in the former DCLG regulation. For the Council this is essentially the same as the CFR method.
- 2) The CFR Method. This involves setting the MRP equal to 4% of the Capital Financing Requirement at the end of the preceding year. This is the method the Council has used in setting its MRP since the prudential system was introduced in 2003.
- 3) The Asset Life Method. This method requires MRP to be charged over the asset life. The asset life is determined in the year MRP commences and is

not changed. MRP will not be charged until the asset becomes operational. Therefore it will be possible to take an MRP holiday for those assets in construction.

- 4) The Depreciation Method. This requires the MRP to equal the actual depreciation based on standard accounting procedures.

### **Recommended Policy**

In setting the 2010/11 budget and beyond the following policy is recommended:

- 1) There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
- 2) The Council will identify the level of “supported borrowing” and use the CFR Method i.e 4% of this figure as part of the MRP charge. The supported borrowing will be used in full irrespective of the service block the funding was allocated in the grant settlement and will also be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
- 3) For the remaining “unsupported borrowing” the Council will use the asset life method. We will use standard categories of asset life to streamline the process: These will be:
  - Freehold land – 50 years
  - Major new building on council owned land – 40 to 70 years (unless design life is demonstrably shorter)
  - Planned maintenance – 10 years
  - Major refurbishment of existing buildings -10 years
  - IT Equipment – 4 years
  - IT systems – 10 years
  - Other Equipment – 5 years
  - Infrastructure assets – 20 years
  - Vehicles & Plant - 7 Years

The actual charge made in the year will be based on applying the above policy to the previous years actual capital expenditure and funding decisions. Therefore the 2010/11 charge will be based on 2009/10 capital out-turn.

## TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Council adopted the Code of Practice on Treasury Management in March 2002, and will adopt the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

### Debt and Investment Projections 2010/11 – 2012/13

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The Council does not anticipate any external borrowing over the period 2010/11 to 2012/13. The table below highlights the expected change in investment balances.

£'000	2009/10 Revised	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
<b>External Debt</b>				
Debt at 31 March	0	0	0	0
<b>Investments</b>				
Investments at 31 March	43,100	25,000	16,000	6,000

### Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Borough Treasurer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### The Authorised Limit for External Debt

A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit £000	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Borrowing	12,000	23,000	31,000	37,000
Other long term liabilities	0	0	0	0
Total	12,000	23,000	31,000	37,000

### Operational Boundary for External Debt

The Authority is also recommended to approve the operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary £m	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Borrowing	10,000	20,000	28,000	34,000
Other long term liabilities	0	0	0	0
Total	10,000	20,000	28,000	34,000

### Borrowing in advance of need.

The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough



Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. However given the level of investments projected for 2010/11 it is not expected that any borrowing in advance of need will be required in 2010/11.

### Expected Movement in Interest Rates

Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantitative Easing {QE}), could trigger a dip back to negative growth and a W-shaped GDP path.

### Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.3	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

\* Borrowing Rates

Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

The MPC will continue to promote easy credit conditions via quantitative monetary measures. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

With inflation set to remain subdued in the next few years (though a sharp blip is forecast for the next few months), the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity price strength filters through) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

The outlook for long-term fixed interest rates is a lot less favourable. While the UK's fiscal burden should ease in the future, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will no longer be able to rely upon Quantitative Easing to alleviate this enormous burden.

The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.

This incentive will take the form of higher interest rates. The shorter fixed interest rates will be pressured higher by the impact of rising money market rates. While bank purchases in this part of the market will continue to feature as these institutions meet regulatory obligations, this process will be insufficiently strong to resist the upward trend in yields.

**Borrowing Strategy 2010/11 – 2012/13**

Given the level of current investments, the Council does not envisage any long-term borrowing in 2010/11 although the Authorised Limit for External Debt has been set to enable the Council to manage its cash flow effectively through the use of temporary borrowing, in the unlikely event that this should be necessary.

## Investment Strategy 2010/11 – 2012/13

### Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background outlined in the Treasury Management Strategy, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the tightened the controls already in place in the approved investment strategy.

### Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Borough Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments offer high security and high liquidity and are:

- ◆ Denominated, paid and repaid in sterling;
- ◆ Not long term investments, i.e. they are due to be repaid within 12 months of the date on which the investment was made;
- ◆ Not defined as capital expenditure; and
- ◆ Are made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency or are made with the UK Government or a Local Authority in England, Wales, Scotland or Northern Ireland.

Non-Specified Investments are those which do not meet the definition of Specified Investments.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- ◆ UK Banks and Building Societies – must meet the minimum following credit criteria

<b>Fitch</b>	<b>Moodys</b>	<b>S&amp;P</b>
Short Term F1	Short Term P1	Short Term A1
Individual A Support 1 to 3	Financial Strength C	
Individual A/B Support 1 to 3		
Individual B Support 1 to 3		
Individual B/C Support 1 to 2		

- ◆ Money Market Funds – AAA Rating Sterling Denominated
- ◆ UK Government (including gilts and Debt Management Account Deposit Facility (DMADF))
- ◆ UK Local Authorities

#### **Country and sector considerations.**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks and Building Societies.

#### **Use of additional information other than credit ratings.**

Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

#### **Time and Monetary Limits applying to Investments.**

The time and monetary limits for institutions on the Council's Counterparty List are as follows (the monetary limits will cover both Specified and Non-Specified Investments):

	<b>Money Limit</b>	<b>Time Limit</b>
<b>UK Banks and Building Societies</b>	£7m	364 days

<b>Money Market Funds</b>	£7m	n/a
<b>UK Government</b>	unlimited	364 days
<b>UK Local Authorities</b>	£7m	364 days

The proposed criteria for Specified and Non-Specified investments are attached to this document.

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2010/11 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

#### **Economic Investment Considerations**

Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

#### **Sensitivity to Interest Rate Movements**

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management income for next year. That element of the investment portfolio which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

<b>£'000</b>	<b>2010/11 Estimated + 1%</b>	<b>2010/11 Estimated - 1%</b>
<b>Revenue Budgets</b>		
Investment income	330	330

#### **Treasury Management Limits on Activity**

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse

movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2010/11	2011/12	2012/13
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	25%	25%	25%
<b>Limits on variable interest rates based on net debt</b>	100%	100%	100%
<b>Maturity Structure of fixed interest rate borrowing 2010/11</b>			
		<b>Lower</b>	<b>Upper</b>
Under 12 months		0%	100%
12 months to 2 years		0%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years and above		0%	0%
<b>Maximum principal sums invested &gt; 364 days</b>			
Principal sums invested > 364 days	£m	£m	£m
	0	0	0

### Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2010/11 the Council does not expect to enter into any borrowing and as such the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

### Treasury Management Advisers

The Council uses Butlers as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;

- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

### **Member and Officer Training**

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, an evaluation will be carried out to establish the level and nature of Member training required. This will be delivered by senior officers in conjunction with the Council's Treasury Management Advisers. Officer training is carried out in accordance with best practice and outlined in **TMP 10 Training and Qualifications** to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

### **Risk Benchmarking**

A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. The Council will review the practical application of such indicators over the coming year and will work in conjunction with the Council's Treasury management advisers and Members to implement a scheme of risk benchmarks that adds value to the treasury management function.

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**SPECIFIED INVESTMENTS**

*All investments listed below must be sterling-denominated.*

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Debt Management Agency Deposit Facility*</b> (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
<b>Term deposits</b> with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	<i>See credit grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>See credit grid</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
<b>Gilts</b> : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Money Market Funds</b> <i>These funds do not have any maturity date</i>	No	Yes	<i>AAA Rating by Fitch, Moodys or S&amp;P</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
<b>Commercial paper</b> <i>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]</i> Custodial arrangement required prior to purchase	No	Yes	<i>See Credit Grid</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i> Custodial arrangement required prior to purchase	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

## NON-SPECIFIED INVESTMENTS

*All investments listed below must be sterling-denominated.*

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum credit</u> <u>rating **</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	364 Days
<b>Term deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	<a href="#">See Credit grid</a>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 Years
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	<a href="#">See Credit grid</a>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	5 years

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum Credit</u> <u>Rating?</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<b>Callable deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity.  (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	<a href="#">See Credit Grid</a>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 years
<b>UK government gilts</b> with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	10 years including but also including the 10 year benchmark gilt

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum credit</u> <u>rating **</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<b>Forward deposits</b> with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	<i>5 years</i>
<b>Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution</b> : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>1 year</i>

### Credit Criteria Grid 2010/11

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- ◆ UK Banks and Building Societies – must meet the minimum following credit criteria

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Short Term F1	Short Term P1	Short Term A1
Individual A Support 1 to 3	Financial Strength C	
Individual A/B Support 1 to 3		
Individual B Support 1 to 3		
Individual B/C Support 1 to 2		

- ◆ Money Market Funds – AAA Rating Sterling Denominated
- ◆ UK Government (including gilts and DMADF)
- ◆ UK Local Authorities

**Time and Monetary Limits applying to Investments** - The time and monetary limits for institutions on the Council's Counterparty List are as follows (the monetary limits will cover both Specified and Non-Specified Investments):


	<b>Money Limit</b>	<b>Time Limit</b>
<b>UK Banks and Building Societies</b>	£7m	364 days
<b>Money Market Funds</b>	£7m	n/a
<b>UK Government</b>	unlimited	364 days
<b>UK Local Authorities</b>	£7m	364 days

**Current Counterparty Report for  
Bracknell Forest Council (LCD) 10-11 (Executive 16/2/10)**

Report run on: 10/02/2010 10:47:01

**BUTLERS**

**List of Approved Counterparties for Lending**

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term Outlook	L. Term	Indiv.	Support	S. Term Outlook	L. Term	Fin.Stgth	S. Term Outlook	L. Term	Time	Money
<b>UK BANKS</b>											
<b>United Kingdom</b>	<b>F1+ STA</b>	<b>AAA</b>			<b>STA</b>	<b>Aaa</b>		<b>A-1+ NEG</b>	<b>AAA</b>		
HSBC GROUP HSBC Bank plc	F1+ STA	AA	B	1	P-1 NEG	Aa2	C+	A-1+ NEG	AA	364 DAYS	£7m
LLOYDS BANKING GROUP Lloyds TSB Bank 	F1+ STA	AA-	C	1	P-1 STA(m)	Aa3	C-	A-1 STA	A+	1 DAYS	Minimise (Council's Bank)
Barclays Bank	F1+ STA	AA-	B	1	P-1 STA(m)	Aa3	C	A-1+ NEG	AA-	364 DAYS	£7m
<b>OTHERS</b>											
<b>United Kingdom</b>	<b>F1+ STA</b>	<b>AAA</b>			<b>STA</b>	<b>Aaa</b>		<b>A-1+ NEG</b>	<b>AAA</b>		
DMO										6 MONTHS	Unlimited
Local Authorities										364 DAYS	£7m
Money Market Funds										1 MONTHS	£7m

**Key**

Upgraded **(U)**    Positive Rating Watch **(P)**    Upgraded Positive Rating Watch **(U.P)**    Upgraded Negative Rating Watch **(U.N)**  
Downgraded **(D)**    Negative Rating Watch **(N)**    Downgraded Positive Rating Watch **(D.P)**    Downgraded Negative Rating Watch **(D.N)**

**Current Counterparty Report for  
Bracknell Forest Council (LCD) 10-11 (Executive 16/2/10)**

Report run on: 10/02/2010 10:47:01

**BUTLERS**

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**TREASURY  
POLICY  
STATEMENT**

**Bracknell Forest Council**

## TREASURY POLICY STATEMENT

This organisation adopts CIPFA's Code of Practice for Treasury Management in Local Authorities.

The Code identifies three key principles

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

## TREASURY POLICY STATEMENT

**This organisation defines its treasury management activities as:**

*The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

**This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation**

**This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management**

## TREASURY POLICY STATEMENT

This organisation will create and maintain, as the cornerstones for effective treasury management;

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

This organisation will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Borough Treasurer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

This organisation nominates a relevant body to be responsible for examining and assessing the effectiveness of the treasury management strategy and policies.

## GOVERNANCE AND AUDIT COMMITTEE 29 MARCH 2010

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### DISTRICT AUDIT REPORTS 2009/10 (Audit Commission)

#### **1 PURPOSE OF REPORT**

- 1.1 The External Auditor has produced several reports as part of the 2009/10 Audit.
- 1.2 This reports need to be considered and endorsed by the Committee. The External Auditor will attend the meeting and will present these reports to the Committee.

#### **2 RECOMMENDATIONS**

- 2.1 **That the Governance and Audit Committee note the content adna gree the recommendations in the External Auditors reports on Audit of Grant Claims Annual Report, Audit Opinion Plan 2009/10 and the Audit Report on Data Quality.**

#### **3 ADVICE RECEIVED FROM STATUTORY OFFICERS**

##### Borough Solicitor

- 3.1 Nothing to add to the report.

##### Borough Treasurer

- 3.2 Nothing to add to the report.

##### Strategic Risk Management

- 3.4 Nothing to add to the report.

#### **4 SUPPORTING INFORMATION**

- 4.1 Attached to this summary report are three reports produced by the External Auditor which cover the following topics

Annual Report on the Audit of Grant Claims 2008/09  
Audit Opinion Plan 2009/10  
Audit Report on Data Quality

- 4.2 The External Auditor will attend the meeting to present these reports to the Committee.

4.3 Officers have reviewed the reports and accepted the recommendations in the reports and where necessary have indicated against the recommendations the responsible officer and the likely timescale for actions.

## **5 CONSULTATION**

5.1 Not applicable.

Contact for further information  
Chris Herbert, Borough Treasurer -01344 355694  
Chris.Herbert@bracknell-forest.gov.uk

Doc. Ref

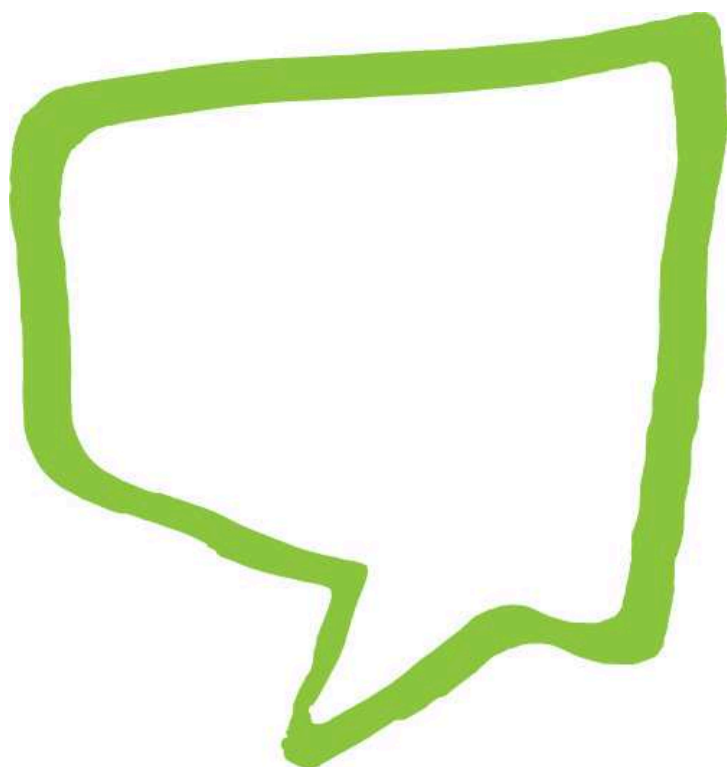
# Certification of Claims and Returns

**Annual Report**

**Bracknell Forest Council**

**Audit 2008/09**

**February 2010**



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## 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

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 2008/09 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

---

## Certification of claims

- 1 Bracknell Forest Council receives more than £110m 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 that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, my audit team certified five claims with a total value of £88million and issued qualifying letters to the grant-paying body on two of these. Appendix 1 sets out a full summary.

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## Significant findings

- 3 We were able to place significant reliance on the Council's control environment for our audit of grant claims. The main findings related to Council Tax and Housing Benefit and these have been discussed with officers.

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## Certification fees

- 4 The fees I charged for grant certification work in 2008/09 were £58,843.

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## Actions

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

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# Background

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- 6 The Council claims £110m 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 £100,000 the Commission does not make certification arrangements.
  - For claims and returns between £100,000 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 from 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

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### Control environment

- 10** I sought to rely on the control environment, in particular Internal Audit work for much of our certification work. I also used assurance from our testing of key financial systems as part of our audit of the Statement of Accounts. Some additional grant testing was carried out. This was mainly focussed on updating our risk assessment and on issues identified in 2007/08 work to assess if progress had been made.

---

### Specific claims - housing benefit and council tax

- 11** The housing and council tax benefit claim is inherently high risk and complex. For this reason I am required to carry out detailed testing specified by the Audit Commission and the Department for Work and Pensions. Any errors found have a significant impact on the extent of testing required under certification requirements. There are three issues which I need to report.
- 12** I found one case of a claimant's bank account being included twice in the assessment of the benefit entitlement. This required additional testing which the Council undertook and I assessed.
- 13** I found two cases of parameters incorrectly input to the system:
- the parameter for the second child benefit rate was input as £12.25 instead of the correct rate of £12.55. This resulted in an overpayment to claimants. The Council calculated the number of affected claims as 465, with a maximum overpayment of £2,325. The affected cases will be corrected in 2009/10 and the resulting overpayment will be included in the subsidy claim form for that year as LA error overpayments which attracts nil rate of subsidy.
  - the parameter for the single disability premium was entered as £25.80 instead of the correct rate of £25.85. As our audit uncovered this error before the final claim was run at the end of the year, the error was corrected before the form was submitted to the Department for Work and Pensions.
- 14** The benefits subsidy claim analyses benefit paid in various entries known as cells. The rate of subsidy varies for cells and is dependent on benefit regulations and, for overpayments, the cause of that overpayment. My testing requires me to check that cases picked for audit testing are correctly classified in cells on the subsidy claim form. I found some misclassification between rent rebate for former council tenants and rebates paid for bed and breakfast claimants. This required additional testing which was carried out by the Council and checked by me. Further errors were identified by this testing and reported in my qualification letter. The department has since confirmed that there will be no adjustment to subsidy claimed for 2008/09 in respect of these errors.

- 15 For future audits we are discussing with officers the potential to obtain clearer audit trails for each cell within the subsidy claim form.
- 16 The Council will be replacing its revenue and benefits system in October 2010. This will add to the workload of both officers and auditors. It will impact mainly on the 2010/11 claim, but I will still have to complete the 2009/10 work during this period of change. I am working together with internal audit to ensure that additional work is kept to a minimum.

---

### Specific claims - Sure Start and Early Years and Childcare grant

- 17 I made minor qualifications including notifying the Department for Education and Skills of expenditure £5,641 relating to previous years before 2008/09. The department has decided not to claw back this prior year funding via an audit adjustment, however, it will adjust the capital carry forward for the related years.

# Appendix 1 – Summary of 2008/09 certified claims

## Claims and returns above £500,000

Service	Claim	Value £	Amended	Qualification letter
Housing	Housing and council tax benefit	26,210,761	No	Yes
Education	Sure Start grant	1,757,550 (revenue) 698,337 (capital)	No	Yes
Education (return prepared by Finance)	Teachers Pensions return	6,067,469	No	No
Finance	National non domestic rates return	53,008,931	No	No

## Claims between £100,000 and £500,000

Service	Claim	Value £	Amended
Environmental Health	Disabled facilities	218,000	No

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Claims and Returns Report 2008/09 - Recommendations</b>					
	R1 Housing and council tax benefit - review the system for updating parameters to ensure that all parameters are correctly entered and checked at the start of the year.	3	Benefit Service Manager	Yes		2009/10 claim
	R2 Housing and council tax benefit - ensure staff classify cases correctly for subsidy purposes when assessing claims.	3	Benefit Service Manager	Yes		2009/10 claim
	R3 Housing and council tax benefit - Improve the accessibility of audit trails for entries on the subsidy claim.	3	Benefit Service Manager	Yes		2009/10 claim

50

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# 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.

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# Data Quality

Bracknell Forest Council

Audit 2008/09

February 2010



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# Contents

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<b>Detailed findings</b>	<b>5</b>
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## Status of our reports

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- any third party.

# Introduction

- 1 The purpose of this report is to summarise the findings from our data quality spot checks.
- 2 Use of Resources KLOE 2.2 focuses predominantly on arrangements for using fit for purpose information and securing data quality. We are required to undertake spot checks on a sample of indicators, based on our knowledge of local risks, as evidence to support this KLOE judgement.
- 3 The purpose of the spot checks is to support the auditor's judgement by confirming whether an authority's arrangements are working in practice and are applied consistently. The spot checks therefore consider whether data is fit for purpose by assessing the arrangements in place to generate the data and testing a small sample of supporting records. The purpose is not to comment specifically on the published value of an indicator, but it is to determine whether the figures are supported adequately.
- 4 Our work on data quality is complemented by the Audit Commission paper 'Improving information to support decision making - standards for better quality data'. The expected impact of the Audit Commission's work on data quality is that it will drive improvement in the quality of local government performance information, leading to greater confidence in the supporting data on which performance assessments are based.
- 5 This is the first review of data quality since the introduction of the National Indicator set. While some of the indicators may be new or amended from previous years, others are largely unchanged. However, the principles and significance of data quality remain a priority.
- 6 The spot checks focused on a small sample of indicators, and these were selected through agreement with the CAA Lead to provide area-wide feedback on a consistent range of significant measures. Those selected were:
  - NI 59 Percentage of initial assessments of children's social care carried out in less than, or equal to, 7 days of referral;
  - NI 135 Carers receiving needs assessment or review and a specific carer's service, or advice and information;
  - NI 142 Percentage of vulnerable people who are supported to maintain independent living;
  - NI 155 Number of affordable homes delivered (gross); and
  - NI 198 Children travelling to school - mode of travel usually used (5-16 years - car) (including vans and taxis).
- 7 We also reviewed data quality arrangements as part of our audit of the Housing Council Tax Benefit subsidy claim. The results of the claim work have been reported separately in our separate report 'Certification of claims and returns - annual report'.

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## Summary findings

- 8 We reported in 2008 that the Council's data quality arrangements needed improvement. The Council is now taking steps to improve those arrangements, many of which are linked to the introduction of the new performance and risk management software (PARIS). A data quality strategy and action plan has been approved by CMT in September 2009. This is in the early stages of being rolled out.
- 9 The results of our spot checks in 2009 indicate that arrangements for achieving data quality remain variable. There is still considerable progress needed in ensuring staff understand and apply the processes necessary to ensure that data used to compile NIs is reliable.
- 10 A common issue across the indicators is the need to assess whether data provided externally to the Council is adequate for the purposes of compiling and reporting the NIs. This has been recognised in the Council's data quality action plan.

Recommendation
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<b>R1</b> Roll out the new data quality strategy. As part of this ensure that staff understand processes necessary to achieve data quality.
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- 11 The details of findings from our work on individual NIs are included in 'Detailed Findings'.

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# Detailed findings

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## **NI 59 Percentage of initial assessments of children's social care carried out in less than, or equal to, 7 days of referral.**

- 12 Our review confirmed that there are adequate arrangements for producing NI 59.
- 13 The system was changed in 2008 and due to problems encountered, detailed validation checks were carried out by staff. We found one case where, due to human error, an incorrect date had been entered on the originating form.

<b>Recommendation</b>
<b>R2</b> Assess whether current arrangements identify and investigate errors on originating documentation.

---

## **NI 135 Carers receiving needs assessment or review and a specific carer's service, or advice and information.**

- 14 Our review found that there are inadequate arrangements for producing NI 135, however the Council is taking steps to address this. A new system - IS Protocol is planned for February 2010 and management arrangements for the NI are being reviewed. Officers anticipate that the level of manual intervention will be reduced and that the new system will enforce standards of data input.
- 15 NI 135 highlights the percentage of carers in receipt of needs assessment or review and a specific carer's service, or advice and information as a proportion of the total population receiving a community based service.
- 16 Carers' assessments are completed by various different care groups based across the authority, some are jointly funded by partners. It also includes one charity – Bracknell Voluntary Action. Assessments can be conducted by any member of those teams and it is their responsibility to record the assessment and associated outcome.
- 17 Carers' assessments are entered onto the SWIFT database by the care group responsible for completing the assessment. SWIFT does not hold all the necessary information about the carer such as age, disability, gender etc which is required for the RAP return. Therefore, care groups are also asked to submit further information via a template collated on a bi-annual basis. This data is collated, along with information submitted by Bracknell Voluntary Action, following a different template into a master spreadsheet which includes filters to highlight the information necessary to complete the RAP return.

**18** Our review of management arrangements found:

- there is a high level of intervention needed to produce the indicator – this increases the risk of error;
- the team provides support to those submitting data on an individual basis and through meetings. At the time of the audit there was no specific guidance covering the details of the specific NI being collated. This is now being drafted;
- the performance team provide exception reports on data submitted to managers responsible for data input but do not receive feedback on how these have been used; and
- as a variety of templates are used in different ways it is not straightforward to transfer information into the master spreadsheet – this increases the risk of error. Officers do not expect these templates to be required when the new system is implemented.

**19** Our testing revealed the following.

- The spreadsheet used to produce the denominator requires filters to be used in order for the correct data to be available. There are no filters saved on the spreadsheet and no formulas to count the data so manual counting of the lines was necessary for our testing. There are no explanation notes on how to use the spreadsheet. This increases the risk of error.
- For the purposes of our review, we were provided with a copy of the master spreadsheet which includes copies of the template submitted by care groups. To demonstrate the collections, we tested two versions of the template and compared these figures with the master spreadsheet. We found errors – including 2 duplications and 9 cases of missing information.

### Recommendation

**R3** Reassess the system for capturing data for NI 135:

- reduce the level of manual intervention;
- set data quality standards;
- clarify responsibility for checking data input by care groups;
- clarify responsibility for validating raw data used for producing the NI;
- communicate contractual standards for groups submitting data to staff with responsibility for producing the NI;
- provide training including specific guidance to those inputting to SWIFT and standardise templates used; and
- complete the guidance for compiling the indicator.

## Detailed findings

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### NI 142 Percentage of vulnerable people who are supported to maintain independent living.

- 20 Our review found that, apart from the need to assess the quality of information from providers' workbooks, there are adequate arrangements for producing NI 142.
- 21 The data used to calculate the NI is taken from workbooks submitted by providers on a quarterly basis. Our testing revealed no errors in how data is taken from workbooks to compile the NI.
- 22 Data quality forms part of the contract compliance framework undertaken annually however there is no evidence to suggest that the authority has a routine procedure for 'spot checking' data in order to ensure that the figures are correct. Officers are of the view that accuracy is assured through validation and knowledge of a suite of indicators and that this would highlight outliers for further review. However, should the quality of underlying data be poor this would not be an adequate control.

Recommendation
R4 Consider developing and implementing spot checking of data submitted by providers to validate data more reliably for NI 142.

---

### NI 155 Number of affordable homes delivered (gross).

- 23 Our review found that arrangements were inadequate for producing NI 155.
- 24 The figure is derived from quarterly returns from RSLs and developers. However, these returns were only in place from quarter 3 of 2008/09. Until then the Council used its lettings spreadsheets. We found the audit trail hard to follow. In addition, our testing identified that 23 properties completed in March 2009 but not notified until after year end were not included in NI 155 for 2008/09, however are planned to be included in the 2009/10 NI.

Recommendation
R5 Strengthen arrangements for producing NI 155 to ensure that properties completed towards the end of the year are included in the correct year.

---

### NI 198 Children travelling to school - mode of travel usually used (5-16 years - car) (including vans and taxis).

- 25 Our review found that, subject to the need to consider checking source data from schools, there are adequate arrangements for producing NI 198.
- 26 The Council does not carry out any spot checking (back to source documentation) on the school census data uploaded via the Collect secure website. Schools themselves do the uploads and it is assumed that they have collated the data accurately.

**27** There are some improvement points around the treatment of data from independent schools. We identified:

- inconsistent treatment of data regarding boarders in independent schools;
- no documentary support for the figure used in the calculation of the pupils attending the Licensed Victuallers School; and
- figures used for Lambrook Haileybury school were not provided for 2008/09 so, in line with the methodology documented locally, previous years figures were used. However, the methodology states that the average for the years where data was collected should be used but the data for 2007/08 alone was actually used in the 2008/09 calculation. The required methodology for calculating independent schools data should be applied where current year data has not been provided.

### Recommendations

**R6** Strengthen arrangements for producing NI 198 by assessing if checks should be made back to source documentation.

**R7** Ensure the correct treatment of data from independent schools:

- identifying the correct treatment of boarding pupils;
- ensuring there is support for pupil numbers at all schools; and
- applying the methodology correctly for schools where data has not been provided.



# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Data Quality Action plan</b>						
4	R1 Roll out the new data quality strategy. As part of this, ensure that staff understand processes necessary to achieve data quality.	3	Head of Performance and Partnerships	Yes		2010
5	R2 NI 59 - Assess whether current arrangements identify and investigate errors on originating documentation.	1	Head of Performance and Governance	Yes		2010
6	R3 Reassess the system for capturing data for NI 135: <ul style="list-style-type: none"> <li>• reduce the level of manual intervention;</li> <li>• set data quality standards;</li> <li>• clarify responsibility for checking data input by care groups;</li> <li>• clarify responsibility for validating raw data used for producing the NI;</li> <li>• communicate contractual standards for groups submitting data to staff with responsibility for producing the NI;</li> <li>• provide training including specific guidance to those inputting to SWIFT and standardise templates used; and</li> <li>• complete the guidance for compiling the indicator.</li> </ul>	3	Head of Performance and Governance	Yes		2010

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 Consider developing and implementing spot checking of data submitted by providers to validate data more reliably for NI 142.	2	Head of Housing Strategy and Need	Yes		2010
7	R5 Strengthen arrangements for producing NI 155 to ensure that properties completed towards the end of the year are included in the correct year.	3	Head of Housing Strategy and Need	Yes		2010
8	R6 Strengthen arrangements for producing NI 198 by assessing if checks should be made back to source documentation.	2	Travel Plan Co-ordinator	Yes		2010
8	R7 NI 198 - Ensure the correct treatment of data from independent schools: <ul style="list-style-type: none"> <li>• identifying the correct treatment of boarding pupils;</li> <li>• ensuring there is support for pupil numbers at all schools; and</li> <li>• applying the methodology correctly for schools where data has not been provided.</li> </ul>	2	Travel Plan Co-ordinator	Yes		2010

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# 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.

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# Audit Opinion Plan (including Use of Resources)

Bracknell Forest Council

Audit 2009/10

March 2010



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## 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.

# Introduction

---

- 1 This opinion plan sets out the audit work that we propose to undertake for the audit of financial statements for 2009/10.
- 2 This opinion plan also serves to communicate the identified audit risks and proposed procedures to the Governance and Audit Committee as required by International Auditing Standards covering auditor communications with those charged with governance.
- 3 An outline of the work required to assess the achievement of value for money in the use of resources was set out in the fee letter of 2 April 2009. In this opinion plan I have also included any changes to my planned use of resources assessment and work that I am required to carry out to enable me to arrive at a value for money conclusion.

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# Responsibilities

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- 4 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.
- 5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 6 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.



# Fee for the audit of financial statements

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- 7 The indicative fee for the audit of the financial statements is £163,300 as indicated in my letter of the 2 April 2009.
- 8 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - good quality working papers will be supplied to support accounting entries associated with the introduction of International Financial Reporting Standards (IFRS), in particular the Council's joint waste PFI; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review by January 2010.
- 9 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, we will discuss this in the first instance with the Borough Treasurer and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 10 Further information on the basis for the fee is set out in Appendix 1.

---

## Specific actions Bracknell Forest Council could take to reduce its audit fees

- 11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support. At this stage we think the key improvement opportunity is to improve the audit trail behind fixed assets entries.

---

# Auditors report on the financial statements

---

- 12 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).
- 13 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 2010.

---

## Identifying opinion audit risks

- 14 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Council including assessing your own risk management arrangements;
  - considering the financial performance of the Council;
  - assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

# Identification of specific risks

15 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 1**      **Specific risks**  
Specific opinion risks identified

Risk area	Audit response
<b>Restructure of the Accountancy section:</b> The Accountancy section is undergoing a restructure. There will be a change of role for some staff and a new capital accountant.	We will maintain a close dialogue with officers during the closedown period.
<b>PFI:</b> Application of the 2009 SORP may bring the joint waste PFI assets onto the Council's balance sheet. The accounting and recordkeeping required to achieve this is not straightforward.	We will review your proposals to account for these assets at an early stage and design a risk based testing programme to satisfy ourselves on this issue.
<b>NDR and Council Tax:</b> changes due to the 2009 SoRP will entail the Council accounting for receipts as an agent rather than principal.	We will review how you have made these accounting changes to your Statements.

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# Testing strategy

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- 16 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year-end.
- 17 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
  - Review of accounting policies.
  - Review of proposed accounting for PFI scheme.
  - Review of year-end feeder systems reconciliations.
  - Review of bank year-end reconciliation.
  - Investments.

Where other early testing is identified as being possible, this will be discussed with officers.

Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of their work on all key financial systems.

- 19 Each year, we carry out a review of Internal Audit to consider the effectiveness of Internal Audit as part of the Council's system of internal control and to maximise the reliance we place on Internal Audit's work in discharging our own responsibilities, in order to minimise duplication of audit work.
- 20 However, every three years or following significant changes to Internal Audit we carry out a more detailed assessment of Internal Audit to confirm that they comply with the requirements of the CIPFA Code of Practice for Internal Audit and to obtain assurance from this review that Internal Audit's work is being performed to a standard that we may rely upon to inform our conclusions.
- 21 Due to the change of Internal Audit provider in 2009/10 we are carrying out part of this triennial review in this year's audit.

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# Key milestones and deadlines

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- 22 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 23 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 24 Every week, we will aim to meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

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**Table 2 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	March/April 2010
Receipt of accounts	June 2010
Forwarding audit working papers to the auditor	July 2010
Start of detailed testing	5 July 2010
Present report to those charged with governance at the Governance and Audit Committee	21 September 2010
Issue opinion	By 30 September 2010

---

# The audit team

25 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 3**      **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 and Chief Officer Financial Services.
Rachel Cobley Team Leader	<a href="mailto:r-cobley@audit-commission.gov.uk">r-cobley@audit-commission.gov.uk</a> 0844 798 1793	Coordinates and delivers different elements of the audit work.

## Independence and objectivity

- 26 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 27 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

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

## The audit team

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### Quality of service

- 29 We are 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 in the first instance. Alternatively, you may wish to contact the Sub-region Head of Operations.
- 30 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
- 

### Planned outputs

- 31 Reports will be discussed and agreed with the appropriate officers before being issued to the Governance and Audit Committee.
- 

**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	8 March 2010
Annual governance report	21 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum (if required)	November 2010

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# Fee for Use of Resources and VFM conclusion

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- 32 I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.
- 33 I am also required to conclude 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.
- 34 The indicative fee for this element of the audit is £73,100 as indicated in my letter of the 2 April 2009.
- 35 My initial planning identified some potentially significant risks which may impact upon my value for money conclusion and I set these out in my letter of the 2 April. For each risk, I have planned my work so as to consider the arrangements put in place by the Council to mitigate the risk, and my proposed response is summarised in Table 5. There are no additional risks that I need to draw to your attention that would increase the amount of audit work I am planning to undertake or the resulting audit fee.



## Fee for Use of Resources and VFM conclusion

36 Specific risks and my response are included in the following table.

**Table 5 Specific risks**  
Specific VFM conclusion risks identified

Risk area	Audit response
<p>The Council has been proactive in achieving efficiencies but continues to face budget pressures. In the short term the impact of the recession has led to reduced income from leisure services, car parking and investment income. In the longer term the Council faces potential reductions in funding with public sector expenditure constraint.</p>	<p>We will continue to review the Council's approach to closing its long term budget gap during the 20010/11 budget and medium term planning cycles in the light of funding reductions.</p>
<p>The Council's arrangements for achieving robust data quality (DQ) have been mixed in the past. In 2009/10 it has taken steps to improve its arrangements by developing a DQ strategy. It is shortly to implement a new performance management system – PARIS.</p>	<p>We will assess whether the strategy and PARIS has improved the consistency of data quality as part of our mandated spot checks.</p>
<p>The Council is a strategic partner in the proposed town centre redevelopment.</p>	<p>We have made no additional provision for this redevelopment in our plan but should the development progress significantly we will update our risk assessment and discuss any fee impact with the Borough Treasurer.</p>

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# Appendix 1 – Basis for fee

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- 1 The Audit Commission 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.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
  - our 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

- 3 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 2008/09;
  - 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;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 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

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- 1 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).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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
- 4 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 auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 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.

- 6 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 five 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.
- 7 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

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 6 Proposed meetings with officers/members**

Council officers	Audit Commission staff	Timing	Purpose
Borough Treasurer and members of the senior management team	DA and AM	Bi-monthly meetings	General update plus: <ul style="list-style-type: none"> <li>• March – audit plan;</li> <li>• July – accounts progress; and</li> <li>• September – annual governance report.</li> </ul>
Chief Officer Financial Services	AM and Team Leader	As required within the framework of the bi-monthly meeting schedule agreed above	Update on audit issues
Governance and Audit Committee	DA and AM, with TL as appropriate	Quarterly as determined by the Committee	Reporting of: <ul style="list-style-type: none"> <li>• Audit plan;</li> <li>• Annual governance report; and</li> <li>• Other issues as appropriate.</li> </ul>

### Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we 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.

---

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## GOVERNANCE AND AUDIT COMMITTEE 29 MARCH 2010

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### EXTERNAL AUDIT CODE OF PRACTICE AND RESPONSIBILITIES Audit Commission

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

- 1.1 To inform the Governance and Audit Committee of the latest code of audit practice and statement of responsibilities.
- 1.2 The Audit Commission has recently published an update to the Code of Audit Practice (the Code) which defines the scope, nature and extent of local audit work and the associated Statements of Responsibilities of Auditors and Audited Bodies which support the Code. Both documents are attached to this report.

#### **2 Background**

- 2.1 The Commission has a statutory duty to prepare, and keep under review, code of audit practice prescribing the way in which auditors must carry out their functions under the Audit Commission Act 1998 (the Act). The Code must embody what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors.
- 2.2 The Code has to be approved by both Houses of Parliament at five yearly intervals and auditors have a statutory duty to comply with it.
- 2.3 Parliament approved the current Code on 9 March 2010. There are only minimal changes to the Code which will come into effect immediately.
- 2.4 In preparing the Code, the Commission consults widely, engaging key organisations that represent audited bodies in local government and the NHS, the accountancy profession and the public audit agencies at each stage.

#### **3 SUPPORTING INFORMATION**

##### **Code of Audit Practice**

- 3.1 In developing the current Code, the Commission's principal aims were to bring about a more streamlined, risk based approach to audit, targeted to areas where auditors have the most to contribute to improvement, together with a stronger emphasis on value for money and clearer reporting of audit results. Specifically, it requires auditors to give a positive conclusion on audited bodies' arrangements to secure value for money, by reference to criteria specified by the Commission. This work focuses on the audited body's corporate performance and financial management arrangements.

- 3.2 The Code is a high level document, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime.

The Code:

- sets out the general principles to be followed by auditors in delivering their objectives;
  - outlines their responsibilities regarding the audit of financial statements and use of resources; and
  - sets out the range of outputs through which the results of audit are reported.
- 3.3 Auditors are required by the Code to report their conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion). The Commission issues criteria to assist auditors in arriving at their VFM conclusion and the relevant criteria for different types of audited body can be viewed on the web using the following address [www.audit-commission.gov.uk/localgov/audit/UoR/approach/Pages/Default.aspx](http://www.audit-commission.gov.uk/localgov/audit/UoR/approach/Pages/Default.aspx)
- 3.4 The Code also outlines how auditors should fulfil statutory functions outlined in the Act. These functions are:
1. to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts
  2. to apply to the court for a declaration that an item of account is contrary to law
  3. to consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review

### **Statements of Responsibilities**

- 3.5 The 'Statements of Responsibilities of Auditors and Audited Bodies' assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas.

## **6 Audit reporting**

- 6.1 The Commission has published a leaflet to inform those bodies audited under the Code of Audit Practice 2005 about the changes to audit reporting introduced by the new Code (attached to this report).
- 6.2 The results of audit work are communicated in a range of reports:
- the audit planning document - which sets out how auditors intend to carry out their responsibilities, in the light of their assessment of risks, and which will be kept under review and updated as necessary
  - oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work - which should be prepared and issued or delivered as soon as possible after completion of the work
  - a report to those charged with governance summarising the conclusions of the auditor - which should cover the full range of auditors' responsibilities under statute and the Code. In accordance with professional standards, this report has

to be issued before the auditor finalises, and issues, his or her opinion on the financial statements

- an audit report, including the auditor's opinion on the financial statements and a conclusion about whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For those local government bodies that are best value authorities this conclusion incorporates the auditor's report on the audit of the Best Value Performance Plan
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements
- an annual audit letter - which should communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work that they consider should be brought to the attention of the audited body. It should highlight the key issues drawn from the report to those charged with governance and auditors' conclusions on relevant aspects of the audit. It should be prepared in clear language that is concise and accessible to a wide audience.

6.3 Other reports may be issued at any point during the audit process, where appropriate:

- section 8 of the Act requires auditors to consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public;
- under Section 11(3) of the Act auditors of local government bodies may make written recommendations that need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body; and
- from time to time, auditors may be required to report information to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant bodies, or to assist bodies such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office in carrying out their functions.

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The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's Code of Audit Practice.

# Code of audit practice 2010

Local government bodies

March 2010

**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.**

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# Preface

## The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum, which comprises all the national audit agencies in the UK.

## The role of the Audit Commission

The Audit Commission (the Commission) is an independent body with statutory responsibilities to regulate the audit of local government and NHS bodies in England, and to promote improvements in the economy, efficiency and effectiveness of public services. We work with our partner inspectorates to assess local public services and make practical recommendations for promoting a better quality of life for local people.<sup>i</sup>

The Commission's responsibilities in relation to audit are:

- appointing auditors to local government and NHS bodies;
- setting the required standards for its appointed auditors; and
- regulating the quality of audits.

<sup>i</sup> Our partner inspectorates are: the Care Quality Commission; HM Inspectorate of Constabulary; HM Inspectorate of Prisons; HM Inspectorate of Probation; and Ofsted.

The Commission appoints auditors from the Commission's own staff and from private firms of auditors. It provides advice and support to auditors on technical matters and monitors their performance through a rigorous quality review process. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

## Statutory responsibilities and powers of appointed auditors

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998 (the Act). In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's *Code of Audit Practice* (the Code).

## The Code of Audit Practice

The Act requires the Commission to 'prepare, and keep under review, a Code of Audit Practice prescribing the way in which auditors [appointed by the Commission] are to carry out their functions under the Act' and which embodies 'what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors'.

The Act also provides for the preparation of a different Code 'with respect to the audit of the accounts of health service bodies as compared with the Code applicable to the accounts of other bodies'.<sup>i</sup>

The Code must be read in conjunction with any regulations that are in force under section 27 of the Act.

The Commission is committed to keeping the Code up to date to reflect changes both in the operating environment of audited bodies and in auditing standards and practice, and may amend the Code where appropriate in the light of practical experience.

<sup>i</sup> This Code covers the audits of local government bodies. These comprise the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils and local probation boards and trusts. A separate Code has been prepared for the audits of NHS bodies.

The *Code* must be approved by a resolution of each House of Parliament at intervals of not more than five years. In the intervening period, the *Code* may be amended by laying proposed alterations before parliament. In addition to the *Code*, the Commission publishes separate documents that are aimed specifically at audited bodies and members of the public, including:

- *Statement of Responsibilities of Auditors and of Audited Bodies* – which highlights the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do;
- *Councils' Accounts: Your Rights* – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies' accounts, and explains the powers of the auditor; and
- *How to Complain* – which explains how audited bodies or members of the public can complain about the work of the Commission and its auditors.

## The contents of the Code

The *Code* comprises five sections:

- general principles;
- auditors' responsibilities in relation to the financial statements;
- auditors' responsibilities in relation to the use of resources;
- reporting the results of audit work; and
- principles relating to the exercise of specific powers and duties of local government auditors.

Schedule 1 to the *Code* provides for the audit of small bodies.

The Appendix contains a glossary of terms.

# Chapter 1: General principles

## Status and application of the Code of Audit Practice

**1** This *Code of Audit Practice* (the *Code*) has been laid before parliament under section 4 of the Audit Commission Act 1998 (the Act) and has been approved by resolution of each House of Parliament. It came into effect on 9 March 2010 and replaces the *Code* that has been in effect from 9 March 2005, as amended on 21 July 2008.

## Scope of the Code

**2** The *Code* prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the Act, appointed by the Audit Commission (the Commission) should carry out their functions under the Act. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case will depend on the specific circumstances and on auditors' assessments of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.

**3** The Commission may wish to appoint different auditors to carry out different elements of the audit at an audited body. In such cases, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the Commission.

**4** There will be circumstances in which aspects of the *Code* that are potentially applicable may be inappropriate to the audit of certain bodies, for example because of the nature of their business or the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies, auditors should 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. In carrying out the audit of bodies with either annual income or annual expenditure below a specified financial threshold, auditors should apply Schedule 1 to the *Code*.

**5** From time to time, when necessary, the Commission also issues guidance to auditors. The Commission does so under its powers under section 3(8) of the Act and Paragraph 7 of Schedule 1 to the Act, to appoint auditors and to determine their terms of appointment.

## Scope of the audit and auditors' objectives

**6** Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the financial statements, but also the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors' responsibilities in relation to the financial statements are covered by professional auditing standards and so the *Code* focuses more on how the wider range of functions of auditors appointed by the Commission should be carried out.

**7** Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the *Code*, the audited body's:

- a. financial statements; and
- b. arrangements for securing economy, efficiency and effectiveness in its use of resources.

**8** Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. The appointed auditor is responsible for carrying out an audit that meets these objectives.

**9** Auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

## The audit approach

**10** Auditors should carry out the audit economically, efficiently and effectively, and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:

- a. plan and perform the audit, on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the *Code*. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;
- b. have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone and work in relation to one element of the audit informs work in relation to other elements;
- c. have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;

- d. discuss with the audited body the need for timely and effective production of working papers and other information required for audit, so that the process can be carried out as efficiently and effectively as possible;
- e. establish effective coordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible;
- f. cooperate with other external auditors and the Commission, and provide information to the Commission (both locally and nationally), to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another;
- g. establish effective coordination arrangements, including for sharing information, with the Commission, its partner inspectorates and other review agencies and other appointed auditors, to minimise the burden of regulation on audited bodies, so far as is consistent with the discharge of auditors' responsibilities, and to make best use of overall audit and inspection resources; and
- h. adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

## **Integrity, objectivity and independence**

**11** Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.

## **Data security and confidentiality**

**12** Auditors and their staff must ensure that all data received or obtained during the audit is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

## Chapter 2: Auditors' responsibilities in relation to the financial statements

**This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.**

Function	Statute
1 To be satisfied that the accounts comply with statutory requirements.	s5(1)(b), s5(1)(c)
2 To be satisfied that proper practices have been observed in compiling the accounts.	s5(1)(d)
3 To express an opinion on the statement of accounts.	s9(1)(b)

**13** The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of financial transactions;
- maintain proper accounting records; and
- prepare financial statements in accordance with the relevant accounting framework.

**14** The audited body is also responsible for preparing and publishing with the financial statements a statement on internal control<sup>i</sup> and a remuneration report and for preparing a whole of government accounts return. Some local government bodies publish other information, such as an annual report, alongside the financial statements.

**15** At the conclusion of the audit of the accounts, auditors are required to give their opinion on the financial statements, including:

- a. whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- b. whether they have been prepared properly in accordance with the relevant accounting framework; and
- c. for local probation boards and trusts, on the regularity of their expenditure and income.<sup>ii</sup>

**i** This is known as the Annual Governance Statement for local authorities.

**ii** Although local probation boards and trusts are local government bodies for the purposes of this Code, they are not local authorities. In particular, local probation boards and trusts are subject to a different accounting framework from other bodies covered by this Code. Where relevant, requirements that apply specifically to local probation boards and trusts are highlighted in the Code.

**16** In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:

- a. are free from material misstatement, whether caused by fraud or other irregularity or error;
- b. comply with statutory and other applicable requirements; and
- c. comply with all relevant requirements for accounting presentation and disclosure.

**17** Auditors should review, and report on as appropriate, other information published with the financial statements, including the statement on internal control and the remuneration report.

**18** In reviewing the statement on internal control, auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

**19** Auditors should also review and report on the whole of government accounts return.

**20** In carrying out their responsibilities in relation to the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies' statements on internal control. Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.



## Chapter 3: Auditors' responsibilities in relation to the use of resources

**This section sets out how auditors fulfil the following statutory function. References in the table are to the Audit Commission Act 1998.**

Function	Statute
1 To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	s5(1)(e)

**21** It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

**22** The audited body is responsible for reporting on aspects of these arrangements as part of its annual statement on internal control.

## Auditors' responsibilities in relation to the use of resources

**23** Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility, auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. In doing so, auditors must have regard to the criteria specified by the Commission.

**24** Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources are:

- the audited body's whole system of internal control as reported on in its statement on internal control;
- the results of the work of the Commission, its partner inspectorates and other review agencies, if the results of the work have an impact on their responsibilities;
- work specified by the Commission in support of carrying out its functions; and
- any other work that auditors consider is necessary to discharge their responsibilities.

**25** Auditors should normally place reliance on the reported results of the work of the Commission, its partner inspectorates and other review agencies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.

**26** In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

## Considerations relating to planning audit work in relation to the use of resources

**27** In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the significant risks of giving a wrong conclusion on these arrangements. The auditor's assessment of what is

significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of these audit risks with the audited body.

**28** Auditors' assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual audited bodies. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body, and are relevant to auditors' responsibilities under the *Code*. Auditors should also consider the audited body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies' arrangements to secure economy, efficiency and effectiveness, auditors should have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of the Commission, its partner inspectorates and other review agencies; and
- relevant improvement needs, identified in discussion with the Commission, its partner inspectorates and other review agencies.

**29** On the basis of their risk assessment, auditors should plan their work and decide whether to:

- highlight the risk to the audited body;
- defer any work in the light of current or planned work by the body or the Commission, its partner inspectorates and other review agencies; or
- carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.

**30** In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body's involvement in partnerships or other joint-working arrangements are being addressed.

## **Work specified by the Commission**

**31** The Commission may, from time to time, specify additional elements of work to be carried out by auditors so that it can fulfil its statutory functions. Work mandated by the Commission will be in addition to auditors' principal responsibilities.

## Chapter 4: Reporting the results of audit work

**This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.**

Function	Statute
1 To comply with the <i>Code</i> .	s5(2)
2 To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	s8
3 To certify the completion of the audit.	s9(1)(a)
4 To express an opinion on the statement of accounts.	s9(1)(b)
5 To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	s11(3)

### Outputs from the audit

**32** The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to the audited body.

**33** The following outputs should be issued at key points in the audit process:

- a. audit planning document;
- b. oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work;
- c. a report to those charged with governance summarising the conclusions of the auditor;
- d. an audit report including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;<sup>i</sup>
- e. a certificate that the audit has been completed in accordance with statutory requirements; and
- f. an annual audit letter.

<sup>i</sup> For local probation boards and trusts the opinion on the financial statements includes the auditor's opinion on the regularity of expenditure and income.

**34** In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:

- a. a report dealing with any matter that the auditor considers needs to be raised, in the public interest, under section 8 of the Act;
- b. any recommendations under section 11(3) of the Act; and
- c. information to be reported to the Commission in a specified format to enable it to carry out any of its other functions or to assist its partner inspectorates and other review agencies and the National Audit Office in carrying out their functions.

## Principles of audit reporting

**35** Auditors should maintain regular communications with audited bodies and ensure that emerging findings are discussed on a timely basis at the level within the audited body that auditors consider to be most appropriate.

**36** All outputs from the audit should be:

- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

**37** Auditors should report to the audited body in such a way as to enable its members or officers to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

**38** Auditors' recommendations, arising from their work in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, should:

- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and report where these are likely to be significant.

## Audit planning documents

**39** Audit planning documents should set out how auditors intend to carry out their responsibilities, in the light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should also demonstrate explicitly how

planned audit work will relate to those improvement planning priorities, relevant to the responsibilities of auditors, identified following any relevant assessments of performance by the Commission. Planning documents should be kept under review and updated as necessary.

## Reports or memoranda on individual aspects of audit work

**40** Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

## Reports to those charged with governance

**41** Auditors' reports to those charged with governance should cover the full range of auditors' responsibilities under statute and the *Code*. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance. Auditors should satisfy themselves that these reports are considered at the level within the audited body that they consider to be most appropriate.

## The audit report

**42** The audit report covers all the responsibilities of the auditor under section 5 of the Act. Therefore, it comprises the auditor's opinion on the financial statements and, having regard to relevant criteria, the auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit report should also include, by exception, any report by the auditor on:

- the statement on internal control;
- any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations made under section 11(3) of the Act; and
- the exercise of any other special powers of the auditor under the Act.

## Auditors' certificates

**43** Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit. This marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

**44** There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded – for example, because there are outstanding matters to be resolved arising from action or possible action under the Act. Auditors should consider issuing their audit report, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.

## Annual audit letters

**45** The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued and matters previously reported to those charged with governance.

**46** The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.

**47** The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the Commission, following the end of the financial year to which the accounts relate.

## Reports in the public interest

**48** Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit, so that it may be considered by the body concerned or brought to the attention of the public.

**49** Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. An immediate report should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

**50** In preparing and issuing reports in the public interest, auditors should tailor their approach to the urgency and significance of their concerns.

### **Recommendations under section 11(3) of the Act**

**51** The auditor should consider whether to make any written recommendations to the audited body under section 11(3) of the Act, which need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body.

### **Information to be reported to the Commission**

**52** From time to time auditors may be required to report information to the Commission in a specified format to enable it to carry out its functions, including assessments of performance at relevant bodies, or to assist its partner inspectorates and other review agencies and the National Audit Office to carry out their functions.



## Chapter 5: Principles relating to the exercise of specific powers and duties of local government auditors

**This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.**

Function	Statute
1 To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.	s15 and s16
2 To apply to the court for a declaration that an item of account is contrary to law.	s17
3 To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.	s19A, s19B, s19C and s24

**53** In addition to the general functions of auditors set out in previous sections of the *Code*, auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.

**54** Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.

**55** In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- whether the substance of the matter has previously been considered by the body's auditor;
- the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and
- in the case of objections, the rights of both those subject to objection and the objector.

# Schedule 1: The audit of small bodies

## Introduction

**S1.1** This Schedule sets out the approach to be adopted for the audit of those bodies (referred to in this Schedule as small bodies) with either annual income or annual expenditure below a financial threshold, which may change from time to time and is prescribed by relevant regulations.<sup>i</sup>

## Governance and accountability

**S1.2** It is the responsibility of small bodies to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to maintain proper accounting records and control systems and to maintain an adequate system of internal audit of those accounting records and control systems.

**S1.3** Small bodies are responsible for preparing and publishing, and providing the auditor with, the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.

## The audit approach

**S1.4** Auditors of small bodies should undertake an examination of the accounts and additional information and explanation provided by the body.

**S1.5** Auditors should meet their responsibility by:

- reviewing compliance with the requirements for the preparation of the accounts;
- carrying out a high-level analytical review of financial and other information provided to the auditor; and
- reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained an adequate system of internal control and internal audit throughout the financial year.

<sup>i</sup> Regulations made under section 27 of the Act prescribe a financial threshold for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

**S1.6** Where, on the basis of the auditor's reviews, the auditor requires further evidence in relation to any relevant matter, additional testing should be undertaken to address the auditor's concerns.

**S1.7** When the auditor has completed an examination of the accounts and additional information and explanation provided, the auditor gives an opinion on the accounting statements and certifies the completion of the audit. Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and the other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

## Appendix: Glossary

### **Accounting statements**

The annual income and expenditure account, statement of balances or record of receipts and payments that a small body is required to prepare in accordance with, and in the form specified in, any annual return required by proper practices in relation to accounts.

This definition applies to small bodies only. Other audited bodies are required to prepare a statement of accounts. (See also 'Financial statements').

### **Act (the)**

The Audit Commission Act 1998.

### **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.

### **Annual report**

Although not required to do so, some local government bodies produce and publish other information, such as an annual report, alongside the financial statements. The annual report describes the aims and achievements of an audited body during a particular year and may include a summarised version of the financial statements.

### **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.

### **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.

Small bodies are not required to prepare a statement of accounts. They are required to prepare accounting statements.

### **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.

### **Local government bodies**

Bodies other than NHS bodies to which the Commission is responsible for appointing auditors, as set out in Schedule 2 of the Act. These include, for the purposes of applying the *Code*, local authorities, local councils (parish and town councils), police authorities, fire authorities, national park authorities and local probation boards and trusts.

### **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’.)

### **Partner inspectorates and review agencies**

The Commission’s partner inspectorates are those organisations that are responsible for carrying out inspections, including bodies with statutory inspection functions such as Ofsted, the Care Quality Commission, and Her Majesty’s Inspectorate of Constabulary. Review agencies include other bodies that have regulatory responsibilities in relation to local government bodies, including government departments, the government offices and relevant regulators of local government professions.

### **Regularity (of the expenditure and income of local probation boards and trusts)**

Whether, subject to the concept of materiality, the expenditure and income of local probation boards and trusts 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.

### **Small bodies**

Audited bodies with either annual income or annual expenditure (whichever is the higher) below a financial threshold, which may change from time to time and is prescribed for the purposes of regulations made under section 27 of the Act. The financial threshold is prescribed for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

### **Statement on internal control**

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 boards and trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in *Managing Public Money*.

### **Third sector**

The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.

### **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 boards and 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.

### **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)



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# **Statement of responsibilities of auditors and of audited bodies**

Local government, March 2010

**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.**

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## Introduction

**1** The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (the Code), which prescribes the way auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and Paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of local government bodies and so supports the Code. A separate statement has been prepared for the audits of NHS bodies.

**2** This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and local government bodies.<sup>i</sup> It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.

**3** The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.

**4** Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

## Introduction to responsibilities

**5** Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

**i** This statement covers the audits of local government bodies. These include the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils, local probation boards and trusts and integrated transport authorities and passenger transport executives.

**6** In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.<sup>i</sup> They are also required to report on their arrangements in their statement on internal control.<sup>ii</sup>

**7** It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities, these include:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of the authority's financial affairs.

**8** In carrying out their work, auditors will:

- plan and manage the audit in a timely, professional and efficient manner;
- plan to complete work within agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

**9** In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

**10** The following paragraphs summarise the specific responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

## Responsibilities in relation to the financial statements

**11** The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place, and review the effectiveness of, its system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;<sup>iii</sup>

**i** The various local government bodies covered by this statement are constituted differently and their governance arrangements will vary accordingly.

**ii** Known as Annual Governance Statement for local authorities.

**iii** For example, Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended, requires local authorities and other specified bodies to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.

- maintain proper accounting records; and
- prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that they are in accordance with applicable laws, regulations and accounting policies.

**12** A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report for each financial year. The financial statements must give a true and fair view of:

- the financial transactions of its pension fund during the year; and
- the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

**13** The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control and, where required to do so, a remuneration report.<sup>i</sup> Local authorities and other specified bodies also prepare a whole of government accounts return. Although not required to do so, some local government bodies publish other information, such as an annual report, alongside the financial statements.

**14** In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resources to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. Specifically, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

**15** If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided

<sup>i</sup> Local authorities prepare an Annual Governance Statement which includes a statement on internal control. Regulation 4(4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on internal control is included with an authority's accounts.

to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. The Commission will charge an additional fee if the additional work is substantial.

**16** In carrying out their responsibilities in relation to the financial statements, auditors have regard to the concept of materiality.

**17** Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

**18** Subject to the concept of materiality, auditors of local probation boards also provide reasonable assurance on the regularity of expenditure and income. In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.

**19** Auditors plan and perform their audit on the basis of their assessment of risk. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

**20** Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

**21** Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information the auditor is aware of. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control covers all risks and controls, and auditors are not required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

**22** Auditors also review for consistency other information that is published by the audited body alongside the financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.

**23** At the conclusion of the audit of the accounts, auditors give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for probation boards, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

**24** In the case of local authorities and other specified bodies, auditors also give their opinion on whether the whole of government accounts return has been properly prepared.

**25** Auditors of local authorities that are the administering authorities for a local authority pension fund include a separate opinion on the pension fund accounts within their report on the financial statements. They also issue a separate opinion on the financial statements contained in the pension fund annual report.

## **Electronic publication of the financial statements**

**26** Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication presents accurately the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.

**27** The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed financial statements, check that the proposed electronic version is identical in content with the manually signed financial statements and check that the conversion of the manually signed financial statements into an electronic format has not distorted the overall presentation of the financial information.



**28** The examination of the controls over the electronic publication of audited financial statements is beyond the scope of auditors' responsibilities in relation to the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

## **Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources**

**29** It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help it deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

**30** The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

**31** Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In doing so they are required to have regard to criteria specified by the Audit Commission.<sup>i</sup> In meeting this responsibility auditors review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements.

<sup>i</sup> These criteria are published on the Commission's website.

**32** In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of these risks with the audited body.

**33** When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code;
- other business risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

**34** In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

**35** Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

**36** In reviewing the audited body's arrangements for the use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors must avoid giving any perception that they have any role in the decision-making arrangements of the audited body.

**37** Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements for the use of resources. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

**38** In reviewing audited bodies' arrangements for producing relevant and reliable data and information to support decision making and manage performance, auditors may review the data supporting specific performance information. Audited bodies are responsible for applying appropriate data quality standards, collecting data that is fit for purpose and, where applicable, conforms to prescribed definitions. Audited bodies are also responsible for satisfying themselves that performance information is reliable and accurate.

**39** Where auditors identify significant misstatements or errors in specific performance information or the underlying data, they draw them to the attention of the audited body, but they do not provide assurance to audited bodies on the accuracy or reliability of performance information or the underlying data.

**40** Audit work in relation to the audited body's arrangements to ensure it promotes and demonstrates the principles and values of good governance and does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Neither is it the auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.

**41** The reviews arising from national studies developed by the Commission, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

**42** At the conclusion of the audit, auditors report their value for money conclusion on:

- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- whether significant matters have come to their attention which prevent them from concluding that the audited body has put in place proper arrangements.

## Specific powers and duties of auditors

**43** Auditors have specific powers and duties under the Audit Commission Act 1998 (the Act) in relation to matters of legality and, for local authorities, electors' rights.

**44** Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

**45** Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 17 and 19A of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

**46** Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

## Reporting the results of audit work

**47** Auditors provide:

- audit planning documents;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter addressed to the audited body, which is based on the report to those charged with governance.

**48** Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.

**49** In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report under section 8 of the Act;
- recommendations under section 11(3) of the Act; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its functions, including assessments of performance at relevant bodies, or to assist other bodies, such as the National Audit Office, in carrying out their functions.

**50** When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

## **Ad hoc requests for auditors' views**

**51** There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

**52** In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

## Grant claims and returns – certification

**53** Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Access to information, data security and confidentiality

**54** Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.

**55** There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.

**56** Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)



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Corporate

July 2006



# Reporting by auditors

What reports to expect from your auditor under the *Code of Audit Practice 2005* for local government bodies

## Introduction

This leaflet tells you:

- about the *Code of Audit Practice 2005* and auditors' responsibilities;
- about changes to the way auditors report; and
- what reports you should expect to receive, their purpose and timing.

## Code of Audit Practice 2005

The Audit Commission Act 1998 requires the Commission to prepare a *Code of Audit Practice* which is approved by Parliament. The *Code of Audit Practice* sets out the way in which auditors must carry out their work.

The *Code of Audit Practice 2005* (the Code) was published in March 2005 and applies to audit work that relates to financial years ending on or after 31 March 2006. A copy of the Code can be obtained from the Commission's website at **[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)**

One of the Commission's main objectives in producing the Code was to encourage better and clearer reporting of the results of audits.

## Auditors' responsibilities

Auditors are responsible for carrying out an annual audit in accordance with the Audit Commission Act 1998 and the Code.

The audit is defined by the Code as covering:

- the accounts; and
- the use of resources.

The principal outputs of the audit are an opinion on the accounts, and a conclusion whether the auditor is satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In supporting these outputs, the Code specifically requires auditors to report to the audited body in such a way as to enable its members/directors and management to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

Auditors' responsibilities are set out in the Commission's *Statement of Responsibilities of Auditors and of Audited Bodies*, a copy of which is sent to every audited body. It can also be found on the Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Changes to the way auditors report

In order to meet the Commission's objective of encouraging better and clearer reporting of the results of audits, the Code has introduced more specific guidance for auditors on reporting.

As well as establishing some general principles of reporting for auditors to follow, the Code has also made changes to the reports that the audited body can expect to receive.

The main changes are:

- the introduction of an enhanced *Report to Those Charged with Governance* which will cover all the auditor's responsibilities under the Code and will incorporate the report on the audit of the accounts required by professional auditing standards;
- the introduction of the auditor's value for money conclusion which may be unqualified (if the auditor is satisfied with the arrangements), qualified (if the auditor is satisfied but with some exceptions), or adverse (if the auditor is not satisfied with the arrangements), and will appear in the audit report after the opinion on the accounts; and
- the annual audit letter (where issued by the auditor) will become a high-level, concise report covering only the key issues arising from the audit.

For those local government bodies where the Commission has inspection responsibilities, the auditor is not required to issue an annual audit letter. Instead, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

By improving the way in which auditors report the results of their work, the Commission also hopes to enhance the value of local audit work to the audited body.

## Reports you should expect to receive, their purpose and timing

Report	Purpose and timing
Audit planning document(s)	To set out how auditors intend to carry out their responsibilities in light of their assessment of risks. The auditor should present the audit planning document(s) to the audit committee or equivalent as soon as possible after the start of the relevant financial year.
Reports on individual aspects of audit work	To report, as promptly as possible, the results of matters arising from specific elements or parts of the audit. This may be in the form of a written report, letter or

Report	Purpose and timing
	<p>memorandum, or a presentation. Examples might include a report on a specific business risk issue or the use of resources assessment (where applicable).</p>
<p>Report to those charged with governance (may also be known as the annual governance report)</p>	<p>To present the findings, conclusions and recommendations from the audit. The report will cover the audit of the accounts and work on arrangements to secure economy, efficiency and effectiveness in the use of resources. The report will cross-refer to other reports issued during the year, but will not repeat the key issues unless they are likely to result in a qualification of the opinion on the accounts or the value for money conclusion. Where a qualified opinion or conclusion is proposed, the report will explain the form of qualification to be used. The auditor should present the report to the audit committee or equivalent in advance of, and to support, the issue of the audit report and certificate.</p>
<p>Audit report and certificate</p>	<p>To formally report on and conclude the audit. Comprises the opinion on the accounts, the regularity opinion (for probation boards), the value for money conclusion, reference to the best value</p>

performance plan (BVPP) report (for best value authorities), any other matters reported by exception (for example, reference to a public interest report), and the audit certificate which closes the audit. The full audit report and certificate must be published by the audited body with the financial statements.

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<b>Annual audit letter</b>	To communicate the key issues arising from the audit to the audited body and key external stakeholders, including members of the public. The annual audit letter will continue to be addressed to all members/directors of the audited body, but it will be a high-level, concise document prepared in clear language and accessible to a wider audience. The issue of the annual audit letter normally marks the end of the audit process.
<b>Annual audit and inspection letter</b>	For local government bodies where the Commission has inspection responsibilities, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

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## Other reports

In addition to the above reports, section 8 of the Audit Commission Act requires auditors to consider whether they should report, in the public interest, on any matter that comes to their attention during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

## Further information

For further information on reporting by auditors, or to discuss the specific reporting arrangements at your audited body, please contact your appointed auditor in the first instance.

Audit Commission  
1st Floor, Millbank Tower,  
Millbank, London SW1P 4HQ  
Tel: 020 7828 1212 Fax: 020 7976 6187  
Textphone (minicom): 020 7630 0421  
[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



## GOVERNANCE AND AUDIT COMMITTEE 29 MARCH 2010

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### AUDIT PLAN 2009/10 (Audit Commission)

#### 1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to set out details of the annual external audit fee and annual inspection fee for 2010-11 for the Governance and Audit Committee to note. The External Auditor will attend the meeting to answer any questions.

#### 2 RECOMMENDATIONS

- 2.1 That the Governance and Audit Committee note the indicative annual external audit fee of £309,600 including the fee for audit of grant claims (to be reduced by a rebate for IFRS) at Appendix 1.
- 2.2 That the Governance and Audit Committee note the indicative annual inspection fee of £18,293 at Appendix 2.

#### 3 ADVICE RECEIVED FROM STATUTORY OFFICERS

##### Borough Solicitor

- 3.1 Nothing to add to the report.

##### Borough Treasurer

- 3.2 The 2009/10 budget includes the provision of £316,570 for audit and inspection fees. The proposed audit and inspection fees after taking into account the Audit Commission rebate for IFRS is likely to be around £321,000 which is slightly higher than is in the budget. However it is anticipated that the work on grant claims with the Auditors will bring the overall audit fee within budget.
- 3.3 Based on the agreed risk assessment and taking into account the guidelines set down by the Audit Commission the Chief Executive and Borough Treasurer do not believe there are grounds to appeal against the 2010/11 audit and inspection fees.

##### Strategic Risk Management

- 3.4 The risks identified by the District Auditor will be addressed in departmental service plans for 2009/10.

#### 4 SUPPORTING INFORMATION

- 4.1 The Council has received notification from the Audit Commission of the indicative external audit fee of £256,600 plus certification of grant claims £53,000 for 2010/11. This is based on the risk-based approach to audit planning set out in the Code of Audit and work mandated by the Audit Commission for 2010/11. As the audit for 2009/10 is not completed, the planning process for 2010/11, including risk

assessment will continue as the year progresses and fees will be reviewed and updated as necessary. This indicative fee excludes the inspection and assessment fees. It reflects only the audit element of the external auditor's work which covers the audit of the financial statements and whole of government accounts (WGA), Use of Resources/VFM conclusion, and certification of claims and returns.

- 4.2 In setting the indicative fee, the District Auditor has assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2009/10. However the additional provision of 12% (2008/09 6%) above the standard audit fee set by the Audit Commission has been made in the external audit plan indicative fee because of the additional work required on IFRS. As the attached letter identifies half of this increase will be rebated by the Audit Commission.
- 4.3 The Chief Executive and Borough Treasurer had a meeting with the District Auditor on the proposed audit fee for 2010/11. The risks identified in the attached document were discussed and agreed.
- 4.4 The fee for grant claims is based on a published day rate and multiplied by an estimate of the days required to complete their audit. The estimate is based on the number of days required to audit the 2008/9 claims. The Benefits Claim presented some problems as identified in the External Auditors report on Grant Claims in 2008/09 and the Officers are working with External Audit to improve the quality of information provided with the objective of reducing the cost of auditing this claim. Therefore it is likely that the audit fee for Grant Claims will be lower in the future.
- 4.5 No specific provision has been made to perform detailed work in response to these or any other major risks which may arise. The District Auditor will consider the arrangements put in place by the Council to mitigate these risks and update his assessment during the year. No specific provision has been made for any auditors costs arising from investigations required as a result of a query from a member of the public.
- 4.5 The Audit Commission have also advised that the indicative fee for the annual assessment and inspection is £18,293. This is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance and specifically relates to the Audit Commission's inspection work. The inspection plan will be reviewed and updated as necessary and any significant amendments to the plan and fee during the year will be discussed and agreed with the Council.

## **5 CONSULTATION**

- 5.1 Not applicable.

Contact for further information  
Timothy Wheadon, Chief Executive – 01344 355609  
Timothy.Wheadon@bracknell-forest.gov.uk  
Chris Herbert, Borough Treasurer -01344 355694  
Chris.Herbert@bracknell-forest.gov.uk

Doc. Ref



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**Our reference** BR31511A

9 March 2010

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

**Direct line** 0844 798 5839  
**Email** p-sharman@audit-commission.gov.uk

Dear Tim

### Annual audit fee 2010/11

I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Bracknell Forest Council. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The indicative audit fee 2010/11 is for £256,600, which compares to the planned fee of £242,100 for 2009/10. A summary of this is shown in the table below.

<b>Work</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>	<b>Actual Fee 2008/09</b>
Financial statements	£189,600	£163,300	£184,900
Use of Resources/VFM Conclusion [including risk based work]	£61,100	£73,100	£66,200
Whole of Government Accounts (WGA)	£5,900	£5,700	£4,100
<b>Total audit fee</b>	<b>£256,600*</b>	<b>£242,100</b>	<b>£255,200<sup>^</sup></b>
<b>Certification of claims and returns</b>	<b>£53,000</b>	<b>£43,000</b>	<b>£58,843</b>

\*gross before rebate applied

^ includes supplementary fee for additional work required

The Audit Commission has published its work programme and scales of fees 2010/11. A copy of this document can be found on the Audit Commission's website. The Audit Commission scale audit fee for Bracknell Forest Council is £229,220. My proposed fee is maintained at 12% above the scale fee and is within the normal level of variation specified by the Commission.

The work programme published by the Commission signalled a 6% increase from the previous year to take account of additional audit work arising from the introduction of International Financial Reporting Standards (IFRS) and this is reflected in my proposal. The Audit Commission's Chief Executive set out the background to this in his letter of 5 February 2010. He has also confirmed that to help mitigate the cost of the IFRS transition the Audit Commission will make a direct rebate to you in December 2010 of 3% of the scale fee.

In terms of this significant change to your accounting framework, I would like to take this opportunity to remind you that those charged with governance within the Council are responsible for ensuring you are prepared for the introduction of IFRS. Although I do not have direct audit responsibilities in respect of balances at the transition date, these do form the opening balances for the comparative period. I will therefore consider your risk assessment process and gap analysis to inform my ongoing risk assessment.

Changes in International Auditing Standards will also increase the audit procedures I need to carry out. In line with the fee proposals for 2010/11, the Audit Commission will absorb the cost of these additional requirements within the above fee.

A separate opinion plan for the audit for the financial statements will be issued to you in February 2011 when my ongoing work is sufficiently advanced. This will detail any risks identified, planned audit procedures and any changes in fee. In considering the scope and nature of my audit, I wish to draw your attention to the following documents, which are available via the Audit Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)):

- Statement of responsibilities of auditors and audited bodies;
- Code of audit practice.

If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Treasurer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Governance and Audit Committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However my initial planning has identified some potentially significant risks which may impact upon my opinion and value for money conclusion. For each risk, I will consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly.

My initial assessment of these risks is shown in the table below. The first two items have additional resources planned and therefore have a direct impact on the fee for the 2010/11 year.

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
The introduction of International Financial Reporting Standards for the first time in 2010/11 will constitute a risk of errors or misstatements in the financial statements.	The audit work arising from the introduction of International Financial Reporting Standards.	April 2010 – March 2011
The Council will be replacing its revenue and benefits system (Pericles) in October 2010. This will impact on 3 significant financial systems – Housing Benefit, Council Tax and NDR.	We will review the Council's approach in establishing robust controls within the new system and ensuring all data is transferred completely and accurately to it. We will seek to place reliance on Internal Audit to complement our controls assessment.	April 2010 – March 2011
The Council has been proactive in achieving efficiencies but continues to face budget pressures. In the short term the impact of the recession has led to reduced income from leisure services, car parking and investment income. In the longer term the Council faces potential reductions in funding with public sector expenditure constraints.	We will continue to review the Council's approach to closing its long term budget gap during the 2010/11 budget and medium term financial planning in the light of funding restrictions.	April 2010 – March 2011
The Council's arrangements for achieving robust data quality (DQ) have been mixed in the past. In 2009/10 it has taken steps to improve its arrangements by developing a DQ strategy. It is shortly to implement a new performance management system – PARIS.	We will assess whether the strategy and PARIS has improved the consistency of data quality as part of our mandated spot checks.	March – July 2011
The Council has taken positive action to strengthen governance arrangements but now needs to ensure these are operating as intended, in particular the role of the Standards Committee, in monitoring compliance with relevant codes and	We will assess the effectiveness of the Council's governance arrangements and the perceptions of members and senior managers by undertaking a	Oct - Nov 2010

Risk	Planned work	Timing of work
procedures and actively promoting standards across the Council.	good governance survey. We will discuss the results of the survey with officers to identify the need for further work. Any further work would be subject to additional fee.	
The Council is a strategic partner in the proposed Town centre redevelopment.	We have made no specific provision for redevelopment in our plan but should the development progress significantly we will update our risk assessment and discuss any fee impact with the Borough Treasurer.	April 2010 – March 2011

I will issue a separate project specification for the good governance survey before beginning the work. I will also issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

You will be aware that the Audit Commission is currently undertaking a review of the Use of Resources framework and my work and associated fee may need to be reassessed when the outcomes of this review are published.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 are:

- Catherine Morganti – Audit Manager 0844 798 4667
- Rachel Cobley – Team Leader 0844 798 1793

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 in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs ([nchilds@audit-commission.gov.uk](mailto:nchilds@audit-commission.gov.uk))

Yours sincerely

Phil Sharman  
District Auditor



cc Chris Herbert, Borough Treasurer

## Appendix 1: Reporting

Our reports will be discussed and agreed with the appropriate officers before being issued.

**Table 1**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Audit fee letter	March 2010
Opinion plan	February 2011
Interim audit memorandum	April 2011
Good governance survey	To be agreed
Use of resources report	September 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum	October 2011
Annual audit letter	October 2011

**Our reference**  
**Your reference**

8 March 2010

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

**Direct line** 0844 798 4619  
**Mobile** 07779 337743  
**Email** e-hale@audit-commission.gov.uk

Dear Tim

### **Assessment and inspection fee - 2010/11 year**

I am writing to outline the assessment and inspection work that we propose for the 2010/11 financial year at Bracknell Forest Council and for the Bracknell Forest area assessment.

The fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission's inspection work, excluding any audit fees, and your appointed auditor, Phil Sharman, will be writing to you separately on fees for audit work.

The total indicative fee for 2010/11 is £18,293 and is derived as shown in the table below. This fee has been set in accordance with the Audit Commission's work programme and scales of fees for 2010/11. For comparison, the revised 2009/10 fee was also £18,293.

### **Assessment and inspection work plan and fee**

<b>Assessment and inspection activity</b>	<b>Planned fee for 2010/11</b>
Area assessment of local partnership	£0 (CLG grant funded)
Managing performance theme of organisational assessment	18,293

Audit Commission, Collins House, Bishopstoke Road, Eastleigh, Hampshire, SO50 6AD

CAA delivers a more proportionate and risk based approach, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The plan will be reviewed and updated as necessary. If I need to make any significant amendments to the inspection plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The focus for the area assessment of local partnership will be to update the assessment published on the OnePlace website in December 2009. This will include plans for future housing in the borough, initiatives to improve community safety, and an assessment of how partners are working together to provide value for money for local people. The managing performance theme of organisational assessment will also draw together the views of Ofsted and CQC on the Council's provision of adult social care and children's services.

The above fee excludes any work you request, and the Commission agrees to undertake, using its advice and assistance powers.

If you have any questions regarding this letter, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs.

Yours sincerely,

Elizabeth Hale

Comprehensive Area Assessment Lead

cc Chris Herbert, Borough Treasurer

TO: GOVERNANCE AND AUDIT COMMITTEE  
29 MARCH 2010

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## INTERNAL AUDIT STRATEGY AND PLAN 2010/11 (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 Strategy and Internal Audit Plan for 2010/11.

### 2 RECOMMENDATION

- 2.1 That the Governance and Audit Committee approve the Internal Audit Strategy attached at Appendix 1.
- 2.2 That the Governance and Audit Committee approve the Internal Audit Plan for 2010/11 attached at Appendix 2.

### 3 ADVICE RECEIVED FROM STATUTORY OFFICERS

#### Borough Solicitor

- 3.1 No comments to add.

#### Borough Treasurer

- 3.2 The budget for 2009/10 includes £209,290 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.

#### Internal Audit Strategy

- 4.5 The Code of Practice for Internal Audit in Local Government in the United Kingdom (Revised 2006) requires that a strategy document be produced, either as a document in its own right, or integrated into an existing document such as a business or service plan, which sets out how the internal audit service will be delivered and developed. An Internal Audit Strategy has now been drafted. This is attached at Appendix 1 for the Committee to review and approve.

#### Development of the Audit Plan

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

- 4.6 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, 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 national performance indicators
- 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.

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

***Key Financial Systems***

4.8 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 2010/11 Plan includes 157 days on key financial systems representing 25% 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.

***Link to the Annual Governance Statement***

4.9 The 2008/09 Annual Governance Statement identified some areas for improvement in our governance procedures and intended actions to address these weaknesses. Internal Audit work has been carried out during 2009/10 on specific aspects of governance. The 2009/10 plan includes further reviews to provide assurance that the Council governance procedures are operating effectively. In particular reviews of risk management arrangements within individual directorates which have not previously been audited have been included in the 2010/11 Plan.

### ***Comprehensive Area Assessment/Use of Resources***

- 4.10 The Plan takes into account CAA/Use of Resources. For example the proposed audit of the Children's Trust addresses the CAA focus on partnerships.

### ***Probity***

- 4.11 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***

- 4.12 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 are being implemented. A key example of this is the replacement of the Pericles system utilised for benefits, Council Tax and NNDR. These areas are audited each year but for 2010/11, audits have been scheduled prior to and after implementation of the new system to ensure that assurance can be provided on the effectiveness of the control environment in place throughout the full year. In addition, computer audit work will be undertaken to seek assurance on processes to ensure the complete and accurate transfer of data on to the new system and on application and security controls in the new system.
- 4.13 The Internal Audit plan for 2010/11 is attached at Appendix 2 for the Committee's review and approval.

## **5 CONSULTATION**

### Principal Groups Consulted

- 5.1 The Chief Executive, Directors and Chief Officers at the Council, the Council's external auditors and the internal audit contractor, HW 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 2.

### Contact for further information

Sally Hendrick – 01344 322092  
[Sally.hendrick@bracknell-forest.gov.uk](mailto:Sally.hendrick@bracknell-forest.gov.uk)

### Contact for further information

Sally Hendrick – 01344 352092  
[sally.hendrick@bracknell-forest.gov.uk](mailto:sally.hendrick@bracknell-forest.gov.uk)

### Doc. Ref

Governance and Audit Committee Report Internal Audit Plan 10-11





# **BRACKNELL FOREST COUNCIL INTERNAL AUDIT STRATEGY**

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7. SERVICE PURPOSE	5

## **1. INTRODUCTION**

In accordance with the Accounts & Audit Regulations 2003 (as amended by the Accounts & Audit (Amendment) (England) Regulations) 2006 the Council is required to maintain an adequate and effective internal audit function. In addition the Code of Practice for Internal Audit in Local Government in the United Kingdom (Revised 2006) requires that a strategy document be produced, either as a document in its own right, or integrated into an existing document such as a business or service plan, which sets out how the internal audit service will be delivered and developed.

The aim of the strategy is to communicate the contribution that Internal Audit makes to the organisation and will cover the following areas:

- Internal Audit objectives and outcomes
- how the Head of Audit and Risk Management will form and evidence the opinion on the control environment to support the Annual Governance Statement
- how Internal Audit's work will identify and address significant local and national issues and risks
- how the service will be provided
- the resources and skills required to deliver the strategy.

## **2. INTERNAL AUDIT OBJECTIVES AND OUTCOMES**

The objectives Internal Audit are defined in the CIPFA Code of Practice for Internal Audit:

“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 organization'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”.

The core work of Internal Audit is derived from the Council's statutory responsibility under the Accounts & Audit Regulations to provide an adequate and effective system of internal audit of the accounting records and control systems. Internal audit works to an annual audit plan which is approved by the Governance and Audit Committee.

The main outcomes from the work of Internal Audit are:

- the delivery of the annual audit plan, taking into account necessary changes for unplanned work or revised priorities;
- the issue of audit reports at the conclusion of each audit in accordance with the procedure noted in 7.4;
- the follow up of progress on implementation of agreed audit recommendations;
- the provision of an annual report and audit opinion presented to the Governance and Audit Committee;
- the investigation of referrals of cases of suspected financial irregularity, fraud or corruption, except for benefit fraud investigations which are investigated by the Benefits Investigation Section; and
- The provision of ad hoc advice on control and governance issues.

### **3. HOW THE HEAD OF INTERNAL AUDIT WILL FORM AND EVIDENCE THE OPINION ON THE CONTROL ENVIRONMENT TO SUPPORT THE ANNUAL GOVERNANCE STATEMENT**

Internal Audit is responsible for providing an opinion on the internal control environment within the Annual Audit Report. The Annual Audit Plan governs each year's activity and at the completion of each audit a report is produced for management with recommendations for improvement.

For each report issued, the recommendations are categorised as priority 1, 2 or 3 with priority 1 being the highest. In addition each report contains an opinion on the level of internal control operating within the area being audited, ranging from significant to no assurance. The annual assessment of the Council's overall internal control environment is based on the level of assurance applied to each area audited. The annual opinion then forms part of the review of the effectiveness of the Council's governance framework and is included in the Annual Governance Statement.

### **4. HOW INTERNAL AUDIT'S WORK WILL IDENTIFY AND ADDRESS SIGNIFICANT LOCAL AND NATIONAL ISSUES AND RISKS**

The annual audit planning process is based on a risking methodology taking into account factors such as materiality, third party sensitivity and potential fraud risk. The Head of Audit and Risk Management also meets with Chief Executive, Directors and Chief Officers to discuss current audit requirements and to identify any potential new areas of concern in the coming year. The Council's Strategic Risk Register and operational risks in Service Plans are also examined to ensure that high scoring risks are taken into account.

The Annual Audit Plan is approved by the Governance and Audit Committee in March each year, however, it is recognised that the Plan is a flexible document which can be revised should unforeseen issues arise during the year.

Awareness of national issues is maintained through subscription to internet resources such as CIPFA's Technical Information Service. In addition there is liaison with external audit and networking with other local authority audit teams.

### **5. HOW THE INTERNAL AUDIT SERVICE WILL BE PROVIDED**

Delivery of audits set out in the Annual Audit Plan developed by the Head of Audit and Risk Management is outsourced to H W Controls and Assurance. In-house there are two staff. The Head of Audit and Risk Management, in addition to audit functions is responsible for promoting effective risk management arrangements across the Council and overseeing insurance. The part-time in-house Contract Manager monitors delivery of the internal audit services, carries out fraud investigations and is responsible for overseeing the work carried out by the Council in respect of the National Fraud Initiative and reviewing Financial Management in Schools self assessments.

### **6. RESOURCES AND SKILLS REQUIRED FOR DELIVERY OF THE AUDIT STRATEGY**

The Council is required to provide sufficient resources to enable an adequate and effective Internal Audit service to be provided that meets its objectives. Internal Audit should have appropriate resources in order to meet its objectives and comply with the standards contained in the Code of Practice.

The current level of resources is considered sufficient to develop and ensure delivery of the Annual Audit Plan and provide the necessary assurance on the effectiveness of the system of internal control.

Individual members of the in-house team have a personal responsibility to undertake a programme of continuing professional development to maintain and develop their competence. This will be achieved through professional training, attendance at ad-hoc seminars and in-house training courses. Training needs are assessed on an ongoing basis and are formally reviewed annually as part of the Council's Performance Development process. The specification for the internal audit contract requires the contractor to have in place a training programme to ensure auditors have the appropriate skills to deliver the Audit Plan.

## **7. SERVICE PURPOSE: TO PROVIDE ASSURANCE TO THE COUNCILS' MANAGEMENT THAT ITS SYSTEMS AND PROCEDURES ARE ADEQUATE AND OPERATING EFFECTIVELY.**

### **7.1 Profile of Services**

Internal audit is an independent appraisal function established by management for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic and effective use of resources.

Internal audit is a statutory function and there are two principal pieces of legislation that impact upon internal audit within local authorities :-

- S151 of the Local Government Act which requires the authority to ensure that one of the officers has responsibility for the proper administration of its financial affairs; and
- the Accounts and Audit Regulations Act 2006 which states that a "relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system 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.

To be effective and be able to meet its responsibilities, the Internal Audit Service needs the right of access. Section 3.3 of the Financial Regulations states that Directors have the responsibility "To ensure that internal auditors are given access at all times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work" and "To ensure that auditors are provided with all information and explanations that they need in the course of their work to enable them to draw appropriate conclusions".

### **7.2 Resources**

In terms of audit resources, the in-house team equates to one whole time equivalent. In addition, approximately 600 days per year are purchased from H W Controls and Assurance.

### **7.3. Context**

#### ***External Drivers***

As a statutory service, the principal drivers for the internal audit team are

compliance with legislation and professional requirements placed on the service, for example compliance with the Code of Practice for Internal Audit in Local Government in the UK, and the Accounts and Audit Regulations.

### ***Access to Senior Officers and Members***

The Head of Audit and Risk Management will meet with the Chief Executive on a regular basis to discuss progress on the Internal Audit Plan. The Head of Audit and Risk Management will have direct access to the Chief Executive, Chairman of the Governance and Audit Committee and Members to raise any matters of concern that she believes should be drawn to their attention.

### ***Key Partners***

HW Controls and Assurance is Internal Audit's key partner. In addition, Internal Audit work closely with the external auditors. A Protocol setting out how the Client Side, HW Controls and Assurance and external audit will share plans, reports and information has been agreed to ensure that the external auditors can place maximum reliance on the work of the internal audit service.

### ***Management Responsibilities***

Directors are responsible for the establishment of internal controls, to ensure that activities are conducted in an orderly, proper and efficient manner. The designing, installing and operation of systems are not Internal Audit functions. Also the drafting of procedures for systems is not an audit function. However, Internal Audit may provide advice on the operation of controls.

### ***Service Objectives***

The objective of internal audit is to provide assurance to the Council's management that its systems and procedures are adequate and operating effectively.

### ***Links to Corporate Objectives***

The internal audit service is linked primarily to Medium Term Objective – "To be accountable and provide excellent value for money".

### ***Service Plan Priorities***

The main priority for internal audit is the delivery of the annual audit plan which is approved in March each year by Governance and Audit Committee. The key indicator in achieving the objective is the percentage of the audit plan completed each year.

### ***Monitoring and Performance***

The Head of Audit and Risk Management reviews quarterly reports from HW Controls and Assurance which report on the performance indicators set out in the service specification. These are also reviewed by the Borough Treasurer and the Chief Executive. In addition reports to the Governance and Audit Committee include details on delivery, assurances and client satisfaction.

## **7.4 Reporting Audit Findings**

At the end of each audit review, an exit meeting is held where the proposed recommendations are discussed. This is followed by the issue of a draft report to the auditee and their senior manager for comment. At this stage, the auditee is required to formally reply to the audit indicating whether they agree with the recommendations made and setting a deadline date for implementation. The report will outline the findings from the audit, the conclusions reached and the resulting recommendations. Once the draft report

has been agreed a final report will be issued. The final report is always issued to the relevant Director. A follow up review may be undertaken after the final audit report has been issued to ensure the agreed recommendations have been implemented. Issues of particular concern will in addition be raised with the Borough Treasurer and Governance and Audit Committee.

## **7.5 Document Retention**

The Internal Audit Service's policy is to retain an electronic copy of all terms of reference, reports issued in draft and as final versions and to retain the hard copy working paper file for the last completed audit on each area. In addition to this, a copy of the completed testing matrix for the penultimate audit of all key financial systems is also retained.

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**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11  
SUMMARY**

AUDIT	DAYS BY QUARTER				TOTAL DAYS
	Q1	Q2	Q3	Q4	
CORPORATE SERVICES	22	44	101	32	199
CHIEF EXECUTIVE'S OFFICE	18	0	0	10	28
ENVIRONMENT CULTURE AND COMMUNITIES	10	43	29	42	124
ADULT SOCIAL CARE AND HEALTH	9	22	11	23	65
CHILDREN, YOUNG PEOPLE AND LEARNING	62	35	9	28	134
COMPUTER AUDITS	5	29	20	30	84
<b>TOTAL</b>	<b>126</b>	<b>173</b>	<b>170</b>	<b>165</b>	<b>634</b>

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11  
CORPORATE SERVICES**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
<b>FINANCE</b>											
Budgeting/Budgetary Control	Procedures for revenue and capital budget setting, monitoring, control and reporting. To include review of procedures for monitoring savings targets.	12	0	0	12		✓ Funding Pressures	✓			
	Controls over investment of Council's funds.	5	0	0	5	0	✓ Funding Pressures Income projections				
Treasury Management	Controls over authorisation and payment of supplier invoices.	12	0	0	12	0					
Creditors	Controls over the recording, collection and write-off of debts.	12	0	0	12	0					
Debtors	Controls over general ledger which is the basis for Council's financial reporting and accounts.	15	0	0	15	0					
Main Accounting (including reconciliations)	Controls in place over procuring and ordering.	12	0	0	0	12	✓ Funding Pressures	✓	✓	✓	

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
Payroll	Controls in place to ensure salaries are accurately paid and only to individuals properly employed by the Council.	15	0	0	15	0	✓				
VAT (flexibility required around timing of the VAT audit to ensure this does not coincide with any HMRC inspection).	Council arrangements for recovering VAT	10	0	10	0	0	✓				✓
Procurement Cards (dependent on roll out during 2010/11)	Procedures and controls in place over the new procurement cards following wider implementation across the Council.	5	0	0	0	5	✓	✓			✓
Imprests	Procedures and controls in place over the use of imprests	5	5	0	0	0	✓				✓
Mobile Devices	Procedures and controls in place over the issue and use of mobile devices.	5	0	0	0	5					✓
Risk Management	Procedures in place for identifying programme, project and operational risks and actions to address risks and for reporting new risks and progress on actions.	5	5	0	0	0		✓	✓		

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
<b>REVENUES</b>											
Cash Management	Controls over the collection, recording and banking of cash	10	0	0	10	0	✓				✓
	Controls in place over calculation, billing and collection of Council Tax under the Pericles system.	8	0	8	0	0	✓	Funding Pressures Income projections			
Council Tax	Controls in place over calculation, billing and collection of Council Tax under the new IT system.	8	0	0	8	0	✓	Funding Pressures Income projections			
Council Tax	Controls in place over calculation, billing and collection of non-domestic rates under the Pericles system.	7	0	7	0	0	✓	Funding Pressures Income projections			
<b>NNDR</b>											
	Controls in place over calculation, billing and collection of non-domestic rates under the new IT system.	7	0	0	7	0	✓	Funding Pressures Income projections			
<b>NNDR</b>											
<b>PROPERTY</b>											
Commercial Properties	Procedures and controls in place over the renting out of	7	7	0	0	0		Funding			

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
Design and Surveyors Services	commercial properties and billing and recovery of rental income.  Procedures and controls in place over the planning of workload and charging of fees	7	0	7	0	0	Pressures Income projections ✓ Funding Pressures				
<b>HUMAN RESOURCES</b> Recruitment and Pre-employment checks (proposed for August 2010)	Procedures and controls in place over job requirements, advertising of posts and pre-employment checks.	7	0	7	0	0	✓ Recruitment			✓	
<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>CONTINGENCY</b>	Contingency days	20	5	5	5	5					
<b>TOTAL</b>		199	22	44	101	32					

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11  
CHIEF EXECUTIVE'S OFFICE**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
Data Quality	The audit will be based on sample testing on procedures calculating for individual indicators and the accuracy of data.	15	15	0	0	0		✓	✓		
Risk Management	Procedures in place for identifying programme, project and operational risks and actions to address risks and for reporting new risks and progress on actions.	3	3	0	0	0		✓	✓		
Town Centre	Council governance arrangements and accountability for this project which is largely externally driven.	10	0	0	0	10		✓			
<b>TOTAL</b>		28	18	0	0	10					

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11  
ENVIRONMENT CULTURE AND COMMUNITIES**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
<b>HOUSING</b>											
Housing & Council Tax Benefits	Controls in place over entitlement, calculation and payment of housing and Council Tax benefits under the Pericles system.	12	0	12	0	0	✓				✓
Housing & Council Tax Benefits	Controls in place over entitlement, calculation and payment of housing and Council Tax benefits under the new IT system.	15	0	0	15	0	✓				✓
Housing Strategy	Procedures for ensuring that the Council meets its housing responsibilities following the transfer of the housing stock. Controls over the Council's new initiatives to address homelessness including grants to existing tenants to move to the private sector, purchase of	15	0	0	0	15		Demographic and socio economic changes, Demand Led Services			

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	properties for temporary accommodation and enhanced deposits.										
<b>Forestcare</b>	Procedures and controls in place at the emergency contact centre including arrangements for services provided to other bodies	5	5	0	0	0	✓ Safeguarding				✓
<b>PLANNING AND TRANSPORT</b>											
Capital projects	Arrangements for determining capital expenditure priorities and sample checking of committed and unavoidable projects to review procedures in place for monitoring and controlling individual projects.	10	0	10	0	0	✓ Programme Management				
<b>ENVIRONMENT AND PUBLIC PROTECTION</b>											
Car Parks											



**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	Procedures and controls in operation over arrangements for on and off street parking including IT access controls	10	0	0	0	10					✓
Cemetery and Crematorium	Procedures and controls in operation over bookings, income, banking and recording of plots including IT access controls.	7	0	7	0	0					✓
Licenses	Procedures and controls in place over the authorisation and issue of licenses and collection and recording of income in accordance with set charges.	5	0	5	0	0					✓
<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	5	0	5	0	0					✓

BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	accordance with the agreements with the Trust and Heritage Lottery Fund.										
Tree Services	Procedures and controls in operation over tree inspections and tree works.	5	0	0	0	5	✓ Tree maintenance/remedial action				
Libraries	Two site visits to review local processes including those over ordering, receipting and recording, budget monitoring, income, petty cash and inventory controls.	5	0	0	0	5	✓ Funding pressures				
Cash Spot checks	Probity checks at a sample of leisure sites	3	0	0	0	3					✓
<b>PERFORM. AND RESOURCES</b>											
Recruitment and Pre-employment checks	Procedures and controls in place over job requirements, advertising of posts and pre-employment checks.	7	0	0	7	0	✓ Recruitment				✓
Reconciliations	Processes for key reconciliations within	5	5	0	0	0		✓			

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	ECC Performance and Resources										
Procurement and Ordering	Controls in place over procuring and ordering.	7	0	0	7	0	✓	✓	✓	✓	
<b>GENERAL FOLLOW UP OF RECOMMENDATIONS</b>	Review of progress on implementation of agreed recommendations in previous audit reports.	8	0	4	0	4		✓			
<b>TOTAL</b>		124	10	43	29	42					

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**  
**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 TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
<b>PERFORMANCE AND RESOURCES</b>											
Primary School Capital Strategy	Governance arrangements, budget setting and monitoring of delivery of the Primary School Strategy	12	0	0	0	12	✓ Programme Management				
<b>LEARNING AND ACHIEVEMENT</b>											
School Census	Sample testing of school census data used as basis for funding allocation	8	8	0	0	0	✓ Demographic and socio economic changes				
<i>Pines Primary (audit in-house)</i>	Follow up due to limited assurance conclusion in 2009/10	2	0	0	0	2	✓ Funding pressures – Delegated budgets				✓
Cranbourne	Follow up due to limited assurance conclusion in 2008/09	2	2	0	0	0	✓ Funding pressures – Delegated budgets				✓
Brakenhale Secondary	Review of key budgetary and financial controls and pre-employment checks.	5	5	0	0	0	✓ Funding pressures – Delegated budgets				✓
Crowthorne Primary	Review of key budgetary and financial controls and	3.5	3.5	0	0	0	✓ Funding				✓

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	pre-employment checks.						pressures – Delegated budgets				
Great Hollands Primary	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Meadow Vale Primary	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Sandy Lane Primary	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Winkfield St. Mary's	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Whitegrove Primary	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Wildridings Primary	Review of key budgetary and financial controls and pre-employment checks.	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓
Woodenhill Primary	Review of key budgetary	3.5	3.5	0	0	0	Funding pressures – Delegated budgets				✓

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	and financial controls and pre-employment checks.						Funding pressures – Delegated budgets				
College Hall Pupil Referral Unit	Review of key budgetary and financial controls and pre-employment checks.	4	4	0	0	0	Funding pressures – Delegated budgets				✓
	Controls over chargeable services offered to schools including recharging.	7	0	0	7	0	Funding pressures – Delegated budgets				
Services to Schools											
Off Site Activities	Controls over the risk assessment of school off site activities including a sample of school visits.	8	8	0	0	0	Safeguarding				
Post 16 Funding transfer (SRG)	Procedures for planning and decision making for the academic year 2011/12 for Learning and Skills Councils when the Council will become responsible for determining provision.	5	0	0	0	5	Funding pressures				
<b>ACCESS AND INCLUSION</b>											
Alders Family Centre	Review of controls including those over income, expenditure and imprests.	4	0	4	0	0	Safeguarding				✓
Chestnut Family	Review of controls including	4	0	4	0	0					✓

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
Centre	those over income, expenditure and imprests.						Safeguarding				
Youth Centres	Two site visits to review controls including those over income, expenditure, imprests and stock.	6	0	6	0	0	✓ Safeguarding			✓	
Extended services	Procedures and controls in place over support and activities provided under extended services.	5	5	0	0	0				✓	
Children's Trust To schedule for late qtr 2/ early qtr 3	To review progress on driving change through the establishment of a Children's Trust.	5	0	5	0	0	✓ Safeguarding	✓			
<b>CHILDREN'S SOCIAL CARE</b>											
Residential placements	Procedures and controls in place over residential placement services including the provision of transport coded to CYPL.	7	0	7	0	0	✓ Safeguarding Funding pressures				
SEN	Procedures for completing and documenting statutory assessments and providing funding support for individual pupils.	7	0	7	0	0	✓ Funding pressures – Delegated budgets				
After Care Team	Procedures and controls in	7	0	0	0	7	✓				

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	place over after-care services provided to young people leaving care.						Safeguarding				
<b>GENERAL</b>											
<b>Follow up of Recommendations</b>	Review of progress on implementation of agreed recommendations in previous audit reports.	8	2	2	2	2		✓			
<b>TOTAL</b>		134	62	35	9	28					



**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**  
ADULT SOCIAL CARE AND HEALTH

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
<b>ADULTS AND COMMISSIONING</b>											
Transforming Adult Social Care	Review to cover eligibility, assessment against criteria set and how support plans are being developed. Across all groups.	12	0	0	0	12	✓ Demographic and socio economic changes Demand led services Safeguarding				✓
Contracting and Brokerage (to be scheduled for late August/September)	Procedures and controls in place over brokerage and arranging and monitoring of contracts.	12	0	12	0	0	✓ Funding Pressures				
<b>OLDER PEOPLE AND LONG TERM CONDITIONS</b>											
Out of Hours Social Services Support	Procedures and controls in operation over out of hours social services support	7	0	7	0	0	✓ Demand led services Safeguarding				
Long Term Conditions	Controls in place over	5	0	0	0	5	✓				

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	eligibility, determining provision and ensuring that this is provided.						Demand led services				
<i>Stroke Grant (in-house audit)</i>	Certification of grant claim	2	2	0	0	0	Safeguarding				
Bridgewell Intermediate Care Unit	Procedures and controls in place over purchasing, income, agency costs, imprest and clients monies	3	0	3	0	0	✓			✓	
Receiverships and appointees	Policies and procedures governing receiverships, controls over transactions and client bank accounts.	4	0	0	4	0	Safeguarding			✓	
<b>PERFORMANCE AND RESOURCES</b>											
Recruitment and pre-employment checks	Procedures and controls in place over job requirements, advertising of posts and pre-employment checks.	7	0	0	7	0	✓	Demographic and socio economic changes		✓	
Financial Assessments	Controls for ensuring that financial assessments and benefits checks are conducted as required and properly documented. Conducted and all assessments/ benefits checks are subject to	7	7	0	0	0				✓	

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY FINANCIAL SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	adequate checking and review.										
<b>Follow up of Recommendations</b>	Review of progress on implementation of agreed recommendations in previous audit reports.	6	0	0	0	6		✓			
<b>TOTAL</b>		65	9	22	11	23					

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**  
COMPUTER AUDITS

SUMMARY OF COMPUTER AUDIT DAYS

AUDIT	DAYS BY QUARTER				TOTAL DAYS
	Q1	Q2	Q3	Q4	
CORPORATE SERVICES	5	13	15	12	45
CHIEF EXECUTIVE'S OFFICE	0	8	0	0	8
ENVIRONMENT CULTURE AND COMMUNITIES	0	0	0	18	18
ADULT SOCIAL CARE AND HEALTH	0	8	0	0	8
CHILDREN, YOUNG PEOPLE AND LEARNING	0	0	5	0	5
<b>TOTAL</b>	<b>5</b>	<b>29</b>	<b>20</b>	<b>30</b>	<b>84</b>

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

CORPORATE SERVICES											
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
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 card details.	5	5	0	0	0	✓	✓			✓
N3 Network Connection	Compliance with the requirements of the N3 connection (health service)	5	0	3	2	0		✓			
Smart Office (Replacing Carestore)	Post Implementation Audit and IT Application Controls.	8	0	0	8	0		✓			
Pericles Replacement	Data migration testing and post Implementation Audit and IT Application Controls.	12	0	5	0	7		✓			

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

CORPORATE SERVICES												
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY	
			Q1	Q2	Q3	Q4						
							data Pericles Replacement					
Adherence to Government Connect	Ongoing compliance with the requirements of GSi Code of Connection.	5	0	5	0	0	✓					
Information Strategy and Implementation of Information Security Management System (ISMS)	Strategy for managing the security of information assets owned by the Council. Project to re-launch a formal Information Security Management System.	5	0	0	0	5		✓				
Follow up of IT recommendations		5	0	0	5	0						
<b>TOTAL</b>		45	5	13	15	12						

CHIEF EXECUTIVE'S OFFICE												
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY	
			Q1	Q2	Q3	Q4						
New Performance Management System (PARIS)	Post Implementation Audit and IT Application Controls.	8	0	8	0	0	✓					
<b>TOTAL</b>		8	0	8	0	0						

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

ENVIRONMENT CULTURE AND COMMUNITIES											
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
New Choice Based Lettings/Housing Register (Northgate)	Post Implementation Audit and IT Application Controls.	8	0	0	0	8	✓ Loss of systems and data				
Upgrade of Lifeline System (Tunstall)	System software change planned in the form of an upgrade during 2010/11.	5	0	0	0	5	✓ Loss of systems and data				
Upgrade of GIS	System software change planned in the form of an upgrade during 2010/11. (NB This upgrade may potentially be later in the year in which case the audit will be undertaken in 2011/12.)	5	0	0	0	5					
<b>TOTAL</b>		18	0	0	0	18					

**BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11**

CHILDREN YOUNG PEOPLE AND LEARNING											
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	Application review to include compliance with Contact Point requirements.	5	0	0	5	0	✓ Safeguarding Loss of systems and data Demographic and socio economic changes Demand Led Services				
Framework/ (Children's System)											
<b>TOTAL</b>		5	0	0	5	0					



BRACKNELL FOREST COUNCIL: INTERNAL AUDIT PLAN 2010/11

ADULT SOCIAL CARE AND HEALTH											
AUDIT	DESCRIPTION OF AREA TO BE COVERED BY THE AUDIT	DAYS	QUARTER				KEY SYSTEM	LINK TO STRATEGIC RISKS	LINK TO CAA	LINK TO AGS	PROBITY
			Q1	Q2	Q3	Q4					
	Post Implementation Audit and IT Application Controls.	8	0	8	0	0	✓				
Integrated Adults System (Protocol)							✓	Safeguarding Loss of systems and data Demographic and socio economic changes Demand Led Services			
<b>TOTAL</b>		8	0	8	0	0					

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**GOVERNANCE AND AUDIT COMMITTEE  
29 MARCH 2010**

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**RELATED PARTY TRANSACTIONS  
Borough Treasurer/Borough Solicitor**

**1 PURPOSE OF DECISION**

- 1.1 To consider the draft guidance and annual declaration of Related Party Transactions prior to its circulation to all Members.

**2 RECOMMENDATIONS**

- 2.1 **That the Committee comment upon the draft guidance and 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.

Equalities Impact Assessment

- 3.3 Not relevant.

Strategic Risk Management Issues

- 3.4 Not relevant.

**4 SUPPORTING INFORMATION**

- 4.1 The Committee considered this matter at its last meeting and unanimously agreed, in principle, that Members of the Council be required to complete an annual declaration of Related Party Transactions, subject to the form being revised and clarified.

- 4.2 The guidance notes and form of declaration have been reviewed and revised versions are attached at Appendix A. The Committee is asked to comment upon these revised documents.

- 4.3 The intention is to circulate the guidance notes and form of declaration to all Members in early April.

Background Papers

Related party transaction guidance notes and forms of declaration used by Wokingham Reading and Windsor & Maidenhead Councils

Contact for further information

Chris Herbert – 01344 355694

[Chris.herbert@bracknell-forest.gov.uk](mailto:Chris.herbert@bracknell-forest.gov.uk)

Alex Jack – 01344 355679

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

Alan Nash – 01344 352180

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

Doc. Ref

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## GUIDANCE NOTES FOR MEMBERS ON RELATED PARTY TRANSACTIONS

### BACKGROUND

Local authorities are required to show 'related party transactions' as a disclosure note within their annual statement of accounts.

The Governance and Audit Committee in order to support high standards of corporate governance, has agreed that all Council Members should declare what are termed 'related party transactions' with the Council. Council Members are, therefore, being asked to sign a declaration so that the Council can comply with this requirement.

### WHAT YOU NEED TO DO

Read the guidance below and then complete the declaration that is attached to this letter and return it to Alan Nash, Chief Officer: Financial Services in Easthampstead House. If you require any advice or have any doubts about whether a transaction falls within the scope of a 'related party transaction', please contact either Alan Nash on 01344 352180 or Alex Jack, Borough Solicitor on 01344 355679.

### WHY HAS THIS BEEN INTRODUCED?

The declaration you are asked to make ensures the fair presentation of the Council's published accounts. The disclosure of related party transactions in the annual accounts has been introduced nationally to make the accounts more transparent and increase public confidence in local government. Directors and senior managers are also being asked to make similar declarations.

### WHAT IS A 'RELATED PARTY'?

The main consideration in determining whether or not a person or an organisation is a related party is the degree of control or influence exerted by one party over the other. This can arise where: -

- one party has direct or indirect control of the other party;
- one party has influence over the financial and operational policies of the other party; or
- the parties are subject to common control or influence from the same source.

The objective is to identify any transactions which may have taken place as a result of the control or influence exercised by one party over another. The concern is such transactions may not be, or may not be perceived to be, in the best interests of the Council.

### ARE FAMILY, HOUSEHOLD AND BUSINESS INTERESTS OF MEMBERS AFFECTED?

Yes. When considering who is a related party, regard is also taken of transactions between the Council and close family members. Who is a close family member is ultimately a matter of judgement for each Council Member, but would usually include any spouse or partner, child, grandchild, parent or grandparent.

In addition, if any individuals are associated with partnerships, companies, trusts or any entities in which they, or a member of their close family, have a major interest, transactions with that organisation should also be disclosed.

Related party disclosure requirements may apply when any payment or benefit arises under circumstances for which there is a statutory scheme or for which the Council has established eligibility criteria which apply to the public at large, e.g.

- housing renovation grants;
- planning consents; or
- provision of care services

### **EXAMPLES OF BUSINESS INTERESTS**

Examples of interests that might give rise to relevant transactions are:-

- You own a company or have a major shareholding in a company that contracts with the Council. No specific limit has been given for what constitutes a major shareholding but, as a broad guideline, more than 20% of the total should be taken as coming within the scope of these requirements.
- Your close relative or member of your household owns a company or has a major shareholding in a company that contracts or does business with the Council.
- You hold a position of influence within a voluntary organisation (in a personal capacity and not as a representative nominated by the Council) that receives grants from or provides services for the Council.
- You, a close relative, or member of your household are in receipt of income from an organisation that relies upon funding from the Council, e.g. a voluntary group.

### **EXAMPLES OF RELEVANT TRANSACTIONS**

The transactions that need to be considered for disclosure include such items as:-

- The purchase, hire, rent or sale of assets from or to the Council, e.g. land transactions, equipment supplies etc.
- The supply of services to the Council, e.g. printing, building contracts, consultancy services etc.
- Payments, loans or other benefits received from the Council of an exceptional nature and not covered by normal contracts of employment.

In addition, non-financial transactions need to be included, such as:-

- The provision of a guarantee by the Council to you or to a related party, e.g. a loan guarantee to a sports club in which the Member holds a position of influence.
- The reduction or waiving of a charge for services by the Council to you or to a related party, e.g. free use of facilities for particular individuals or groups associated with a councillor and/or their close family members.

### **ARE THERE ANY EXCEPTIONS?**

Yes: where transactions are common to all individuals, they need not be declared. For example, there is no need to declare council tax, rent or housing benefits which are transactions that would occur regardless of the individual's relationship with the authority.

**IS WHAT I DECLARE LIKELY TO BE DISCLOSED IN THE COUNCIL'S ACCOUNTS?**

Generally, it must be assumed yes, though disclosure will not be required in the accounts when the dealings between the Council and related party are judged to be immaterial. However, in assessing the materiality, that assessment will not only take account of its significance to the authority, but also in relation to the related party. If any disclosure is necessary it will be in general terms and will not name individuals. Any proposed disclosure will be discussed with the relevant Member before it is published.

**WHAT FORM DOES THE DECLARATION TAKE?**

Each year, you will be asked to sign a form of declaration. The form of declaration is attached. If you have related party transactions to disclose, the form asks for brief details of the transactions and the sums involved.

**WHEN DO I HAVE TO SIGN BY?**

By 30 April 2010, for transactions relating to the financial year 1 April 2009 to 31 March 2010.

**FINALLY....**

This is an important part of being seen to maintain high standards of ethical behaviour and we would like to thank you for your assistance in achieving this objective.

Chris Herbert  
Borough Treasurer

Alex Jack  
Borough Solicitor

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**BRACKNELL FOREST COUNCIL**

**DECLARATION OF RELATED PARTY TRANSACTIONS**

**2009/10**

Have you, a close family member or any partnership, company, trust or other entity in which you or a close family member has a controlling interest been involved in any business dealings with the Council during the period 1 April 2009 to 31 March 2010?

**YES/NO** (please delete as appropriate)

If yes, have you or a related party during the period 1 April 2009 to 31 March 2010:

- a) Had a contractual relationship with the Council? **YES/NO**
- b) Purchased, hired, rented, let or sold assets to or from the Council? **YES/NO**
- c) Supplied services to the Council? **YES/NO**
- d) Received any payments (this does not include allowances and expenses payable under the Members Scheme of Allowances), loans or other benefits from the Council? **YES/NO**
- e) Been provided with a guarantee by the Council? **YES/NO**
- f) Received a reduction or waiver of charges from the Council? **YES/NO**
- g) Had any other relationship with the Council which might reasonably be regarded as falling within the definition of a related party transaction? **YES/NO**

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

.....

.....

.....

.....

.....

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Position: \_\_\_\_\_

Please return this questionnaire to Alan Nash, Chief Officer: Financial Services by 30 April 2010. Please note that to satisfy the external audit process, a written response is required even if only to notify a nil return.

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## GOVERNANCE AND AUDIT COMMITTEE 29 MARCH 2010

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### ANNUAL GOVERNANCE STATEMENT Director of Corporate Services – Legal

#### 1 PURPOSE OF DECISION

To appraise the Committee of the process for preparing the Annual Governance Statement and to consider nominating a Member to participate in the work of the Corporate Governance Working Group in formulating this year's Annual Governance Statement.

#### 2 RECOMMENDATION(S)

**That the Committee consider whether it is appropriate for a Member of the Committee to attend the Corporate Governance Working Group on 24 May 2009 to participate in the creation of the Annual Governance Statement, and if so, to nominate this Member.**

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

##### 3.1 Borough Solicitor

The Borough Solicitor is the author of this Report.

##### 3.2 Borough Treasurer

There are no financial implications of this Report.

##### 3.3 Equalities Impact Assessment

Not relevant

##### 3.4 Strategic Risk Management Issues

Not relevant

#### 4 SUPPORTING INFORMATION

4.1 The Council is required to prepare and publish an Annual Governance Statement in accordance with the Delivering Good Governance in Local Government Framework in order to meet its statutory requirements as set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006. The Regulations require authorities to "conduct a review at least once a year of the effectiveness of its system of internal control" and prepare a statement.

4.2 The Annual Governance Statement covers all the systems within the Council, is signed by the Leader and Chief Executive and contained within the Statement of Accounts.

- 4.3 The review of the Council's governing arrangements in the Annual Governance Statement leads to the formulation of an Action Plan to address any weaknesses identified.

#### **Principles of Good Governance**

- 4.4 The Annual Governance Statement reviews the Council's system of internal control and governance. The review assesses the Council's governance arrangements against best practice guidance issued jointly by CIPFA (the Chartered Institute of Public Finance Accountants) and SOLACE (Society of Local Authority Chief Executives).

- 4.5 The CIPFA/SOLACE guidance sets out 6 core principles of good governance which are:

- 1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- 3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- 5 Developing capacity and capability of members and officers to be effective.
- 6 Engaging with local people and other stakeholders to ensure robust public accountability.

#### **4.6 Preparation of the Annual Governance Statement and Action Plan**

- 4.7 The form and content of the Annual Governance Statement is defined in the Supplement to the Delivering Good Governance in Local Government Framework.

- 4.8 The creation of the governance statement requires officers to provide assurances in relation to their area/department. In particular;

- Each Director is required to provide assurances about their department and the Chief Executive provides assurances in relation to the Chief Executive's Department.
- Chief Finance Officer provides assurances in relation to Financial Services.
- Borough Treasurer provides assurances in relation to Risk Management.
- Borough Solicitor provides assurances in relation to Legal and Regulation.

- 4.9 The above officers have been asked to complete their appropriate Assurance Statement by April 16th.

- 4.10 The completed Assurance Statements are considered by the Corporate Governance Working Group who produce the draft Annual Governance Statement and Action Plan.

- 4.11 The drafts are then considered by the Corporate Management Team and at the Executive's Briefing before being submitted to the Governance and Audit Committee for approval on 21 June 2010.

#### **Proposed involvement of Governance and Audit Committee**

- 4.12 In previous years officers (in the form of the Corporate Governance Working Group) have drafted the Annual Governance Statement. It is felt that it would be beneficial for there to be Member input into the preparation of the Annual Governance Statement and the Committee is therefore requested to consider nominating a Member of this Committee to attend the meeting of the Working Group on 24 May 2010 at 14.00h. In particular, this meeting will focus on formulating the Annual Governance Statement.
- 4.13 The rationale for inviting a Member to participate in the meeting is that, although the final form of the Annual Governance Statement is signed by the Chief Executive, it is also signed by the Leader. Until now, the Annual Governance Statement has lacked a Members perspective until it has gone right through the drafting process to the Executive's Briefing. Other authorities do involve a Member at an earlier stage and this seems a sensible approach.

#### Background Papers

CIPFA/SOLACE: Delivering Good Governance in Local Government Framework

CIPFA/SOLACE: Delivering Good Governance in Local Government Guidance Note for Local Authorities

#### Contact for further information

Nicola Thurloway, Legal Services, 01344 353071

[Nicola.thurloway@bracknell-forest.gov.uk](mailto:Nicola.thurloway@bracknell-forest.gov.uk)

#### Doc. Ref

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