

# Bracknell Forest Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Bracknell Forest Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b> ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. However, we reported this fact to the NAO as required by the NAO group instructions.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 September 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the housing benefits claim.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.



Helen Thompson  
Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### **The Purpose of this Letter**

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our September 2016 Audit Results Report to the 21 September 2016 meeting of the Governance and Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.





# Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 10 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ on the 2015/16 financial statements; and
  - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ any significant matters that are in the public interest;
  - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial Statement Audit



## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We issued an unqualified audit report on 21 September 2016.

Our detailed findings were reported to the Governance and Audit Committee on 21 September 2016.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We:</p> <ul style="list-style-type: none"><li>▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>▶ reviewed accounting estimates for evidence of management bias; and</li><li>▶ evaluated the business rationale for any significant unusual transactions.</li></ul> <p>We carried out our tests as planned and this work found no evidence of management override in the 2015/16 financial statements.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements.</p> <p>The Council continues to engage Wilks Head and Eve to carry out the valuation of property, plant and equipment</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"><li>▶ reviewing the Council's instructions to the valuer and assessing the reasonableness of the valuation assumptions and methodology; and</li><li>▶ reviewing the proposed accounting entries and disclosures in the 2015/16 financial statements.</li></ul>



assets. The use of external valuers could result in a change in estimation methodology and measurement, which may lead to material changes in asset valuations. To mitigate the risk, the Council will apply in-house expertise to land valuation, depreciation and any impairment reviews.

Our audit tests and procedures on the work of experts concluded that the external valuers valued the Council's assets in accordance with the required professional and statutory guidance, and that the bases for the valuations were consistent and materially correct.

We reviewed and tested the subsequent adjustments made by the Council to the PPE balances and confirmed that the gross value of the adjustments was below our identified materiality level. As such, the scope for material error was found to be minimal. The adjustments were made to allow for local valuation factors, and our work agreed that the basis for these adjustments was reasonable.

### **Better Care Fund (BCF) Accounting**

From 1 April 2015 BCF has been set up as a pooled budget between the Council and its NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.

Proper disclosure of the nature of all of these arrangements is important together with the accounting and disclosure implications arising from them in the Council's accounts. The risk is also increased when the audit arrangements are different between the CCGs and local government.

Our approach focussed on:

- ▶ developing our understanding of the contractual and operational arrangements; and
- ▶ gaining an understanding of the proposed accounting treatment and ensuring this is properly disclosed in your financial statements.

We carried out our audit procedures and found that the Council had performed a full analysis of the nature of the constituent Better Care Fund schemes, including whether the arrangements demonstrated joint control, lead commissioning, or an agency arrangement. Our work found that these were correctly accounted for within the Council's income and expenditure account.

The disclosure at Note 35 was made in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code), and only showed gross income and expenditure. However, the Council's analysis indicated that some of the pooled fund expenditure should be accounted for net, i.e. showing only the portion of expenditure that is representative of the Council's contribution, and additional information was added to Note 35 to show the split between the Council's and the CCG's accounts.

As such, we are satisfied that the accounting for the Better Care Fund is materially correct.

**Other Key Findings**

**Conclusion**

**NNDR appeals provision**

Due to significant uncertainty surrounding the outcome of the NNDR appeals in progress, there is a risk that the provision recognised in the accounts might be inappropriate and measured at an incorrect amount. While the risk of appeal is inherent to all business rate payers, it is particularly so where appeals are anticipated from large companies.

Our approach focussed on:

- ▶ gaining an understanding and assessing the reasonableness of the Council's methodology in estimating and planned provision in respect of rateable value appeals outstanding at the balance sheet date;
- ▶ considering both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumption made by the Council on the likelihood of success; and
- ▶ reviewing and relying on the work of any experts appointed by management to assist in this process.

As expected, there was one significant successful appeal during the year which meant that nearly £10 million of the business rates provision was utilised during the year.

Our audit testing in this area found that the subsequent year-end provision was prudent and reasonable, and had been prepared using materially accurate assumptions.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

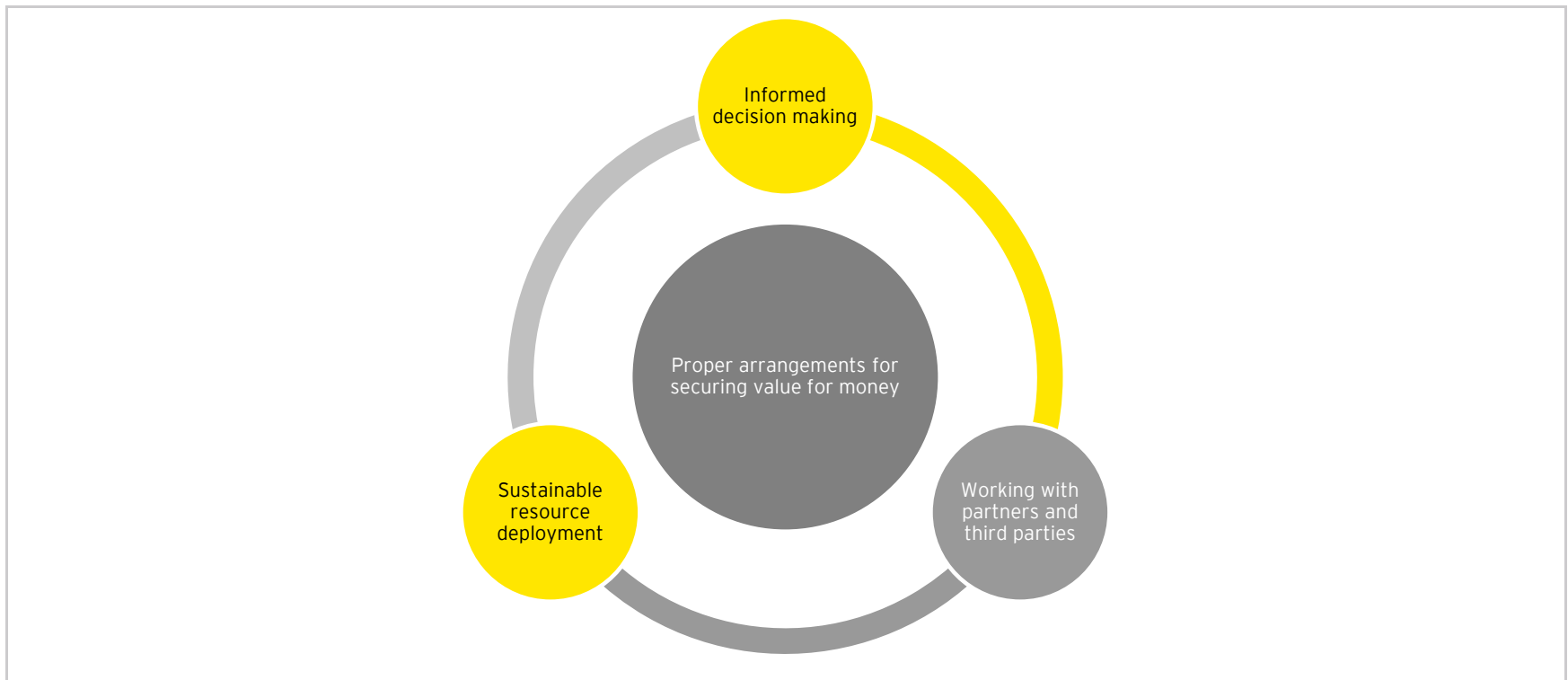
Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.





We issued an unqualified value for money conclusion on 21 September 2016.

We identified the following significant risk in our audit plan:

Significant risk	Conclusion
<p>The impact of continuing reductions in funding from central government is an ongoing challenge for the Council, and a funding gap of £11.6 million has been identified for the financial year 2016/17.</p> <p>As at March 2016 the Council has plans to fully mitigate the gap through the use of £5.1 million general fund reserves, a 3.99% Council Tax increase and further savings, some of which have been identified through the Council's transformation Board.</p> <p>However, there remains an inherent significant risk in relation to the Council's ability to realise the savings required. Furthermore, the Council does not currently have a medium term financial plan to support the years beyond 2016/17 and this is work in progress as at March 2016.</p>	<p>The Council achieved an underspend of £2.7 million for the year ended 31 March 2016, increasing general balances by £1.8 million.</p> <p>The Council has closed the budget gap for 2016/17. However, the medium term financial plan, presented to Executive in July 2016, shows a £23 million cumulative budget gap up to March 2020. Bracknell Forest is an authority identified by the Government as being in a position to raise extra funds from council tax, which essentially means a comparatively lower settlement for the Council, and in turn means the gap will be harder to close without difficult decisions from the Council.</p> <p>The Council has opted to accept the Government's offer of a four year settlement. This offers certainty but also represents a withdrawal of Revenue Support Grant. To be eligible for the four year offer, the Council must produce an efficiency plan and submit this to the Department for Communities and Local Government by 14 October 2016. This plan is a combination of the Medium Term Financial Strategy and transformation programme, and was approved by the Executive on 14 September 2016.</p> <p>Therefore, the medium term outlook is very challenging and the Council needs to consider options such as council tax increases, use of reserve balances and contingencies, as well as wider efficiency and transformation savings.</p> <p>The Council will continue to work on its medium term budget proposals, and plans to discuss these further in December 2016. We will review these as part of our 2016/17 value for money conclusion and report our findings to you accordingly.</p>



## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack. However, we reported this fact to the NAO in line with the group instructions.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Governance and Audit Committee on 21 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## **Control Themes and Observations**

We have adopted a fully substantive approach and have therefore not tested the operation of controls.



A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><b>Highways Network Asset (HNA)</b></p>	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's balance sheet will be highly significant. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>
<p><b>EU referendum.</b></p>	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating. Any impact on the council's valuations if confidence in the wider UK property market falls is likely to affect the financial statements. Also, the valuation of council's defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need a response. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market</p>

Area	Issue	Impact
<p><b>Local appointment of auditors</b></p>	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this Bracknell Forest Council can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Council should consider whether it intends to opt into the appointed person scheme to appoint your auditors from 2018/19 or whether the Council should make its own arrangements following the legislative requirements.</p>
<p><b>Accelerated closedown</b></p>	<p>From the 2017/18 financial year, the deadline for preparing the Council's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the Council to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>

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ED None

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