

Bracknell Forest Council

Annual Audit Letter

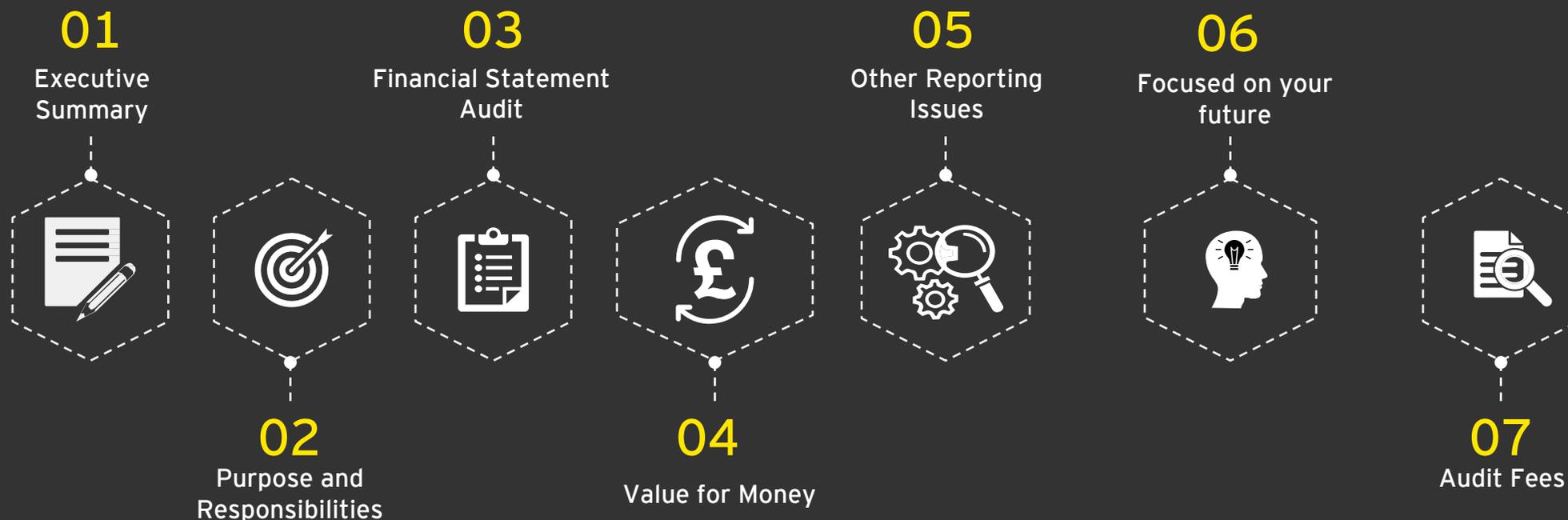
Year ended 31 March 2018

August 2018



Building a better
working world

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (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 (updated 23 February 2017)' 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.



01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Bracknell Forest Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of the Annual Governance Statement	The Annual 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
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

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 25 July 2018.
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 audit certificate was issued on 31 July 2018.

By November 2018 we will also issue a report to those charged with governance of the Council summarising the housing benefit certification work we have undertaken.

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

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities



Purpose and Responsibilities

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 2017/18 Audit Results Report to the 25 July 2018 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan we issued on 31 January 2018 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 2017/18 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 the 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. The Council is below the specified audit threshold of £500 million, therefore we did not perform any audit procedures on the 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.



03

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 and issued an unqualified audit report on 31 July 2018. Our detailed findings were reported to 25 July 2018 Governance and Audit Committee.

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

Significant Risk

Misstatements due to fraud or error

As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.

We focused on:

- ▶ understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance and Audit Committee oversees management's processes over fraud.
- ▶ considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ determining an appropriate strategy to address those identified risks of fraud.
- ▶ performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.
- ▶ reviewing management's calculation of the MRP (Minimum Revenue Provision), NDR provision and changes to accounting policies.

We:

- wrote to the Borough Treasurer, Chairman of the Governance and Audit Committee, Head of Internal Audit and Monitoring Officer in this regard and reviewed their responses.
- documented our understanding of the controls relevant to this significant risk and considered whether they have been appropriately designed.
- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- reviewed accounting estimates for evidence of management bias, in particular the MRP and NDR Provision.
- evaluated the business rationale for any significant unusual transactions.

Conclusion

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied. Our review of management's calculation of the MRP (Minimum Revenue Provision) and NDR provision did not identify any issues which required an amendment to the Council's financial statements.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p data-bbox="91 317 629 349">First time preparation of group accounts</p> <p data-bbox="91 368 1346 496">The Council established a local housing company during 2016/17 to help the Council meet rising demand to provide homes for homeless households, households with learning disabilities and/or autism and care leavers. In 2016/17 the budgeted spend was £6.5m which was relatively low and therefore the Council did not prepare grouped accounts in 2016/17.</p> <p data-bbox="91 515 1357 643">For 2017/18, housing activity has increased and an extra £7 million of capital funding was granted to Downshire Homes in March 2017. Given the significant increase in expenditure in 2017/18, the Council are required to prepare group accounts as our planning materiality for the 2017/18 audit is £5.543m.</p> <p data-bbox="91 703 297 730">We focused on:</p> <ul data-bbox="91 754 1357 866" style="list-style-type: none">▶ agreeing the completeness of the components in the Council's Group Accounts;▶ understanding the Group accounting policies and disclosures and confirm their completeness and appropriateness; <p data-bbox="91 890 147 917">We:</p> <ul data-bbox="91 941 1368 1249" style="list-style-type: none">• reviewed the Council's group accounts and relevant disclosures for its subsidiary, Downshire Homes Ltd.• assessed the appropriateness of any significant judgements and assumptions made.• tested the 2016/17 comparatives and proposed accounting policies and disclosures as part of our interim audit.• carried out year end testing of the 2017/18 transactions and balances generated, the consolidation of the components into the group accounts, and reviewed the elimination of intra-group transactions and balances.	<ul data-bbox="1384 368 2132 547" style="list-style-type: none">• Our testing identified no misstatements in the Council's group accounts and relevant disclosures.• We did not identify any other group transactions during our audit which appeared to be misstated, material or otherwise.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p>Property, Plant and Equipment Valuation</p> <p>We:</p> <ul style="list-style-type: none">▶ considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.▶ considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer.▶ reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.	<p>Our testing identified no material misstatement from inappropriate judgements being applied to the property valuation estimates.</p> <p>We did not identify any other assets during our audit which appeared to be misstated, material or otherwise.</p>
<p>Pension Liability Valuation</p> <p>We:</p> <ul style="list-style-type: none">▶ liaised with the auditors of the administering authority (Windsor and Maidenhead Borough Council), to obtain assurances over the information supplied to the actuary in relation to Bracknell Forest Council.▶ assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.▶ reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.	<p>The estimate used by the actuary to calculate Bracknell Forest's share of Berkshire Pension Fund's assets does not fully reconcile to the value of those assets at 31 March 2018. This is not material and relates to the fact that the actuary provides an estimate for the asset value of the fund at a point in time to be used appropriately in the preparation of the financial statements. At the time of our audit, the asset value at 31 March 2018 is known and the difference for the total fund is an increase of approximately £8.6m. This is not an error but a difference caused by the timing of the estimate made by the actuary of the fund and the actual values subsequently being available.</p> <p>Bracknell Forest's share of this difference has been estimated to be £1.073k. This was treated as an unadjusted audit difference.</p>
<p>Private Finance Initiative</p> <p>We:</p> <ul style="list-style-type: none">▶ reviewed assurances brought forward from prior years regarding the appropriateness of the PFI waste accounting model;▶ reviewed the PFI waste accounting model for any significant changes. Following consideration of this we did not need to engage our internal experts as there were no significant changes in year;▶ agreed the outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure and reviewed the completeness and accuracy of PFI disclosures.	<p>We concluded our work on PFI Accounting and noted no material issues. Our PFI expert identified some non-material differences in the output from the Waste PFI model.</p> <p>We will discuss these differences with officers during our 2018/19 audit and will, if necessary, engage our internal experts.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £5.5million (2016/17: £5.5million), which is 2% of the net operating expenditure reported in the accounts of £277.7 million.</p> <p>We consider net operating expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Governance and Audit Committee that we would report to the Committee all audit differences in excess of £278,000 (2016/17: £277,000).</p>

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



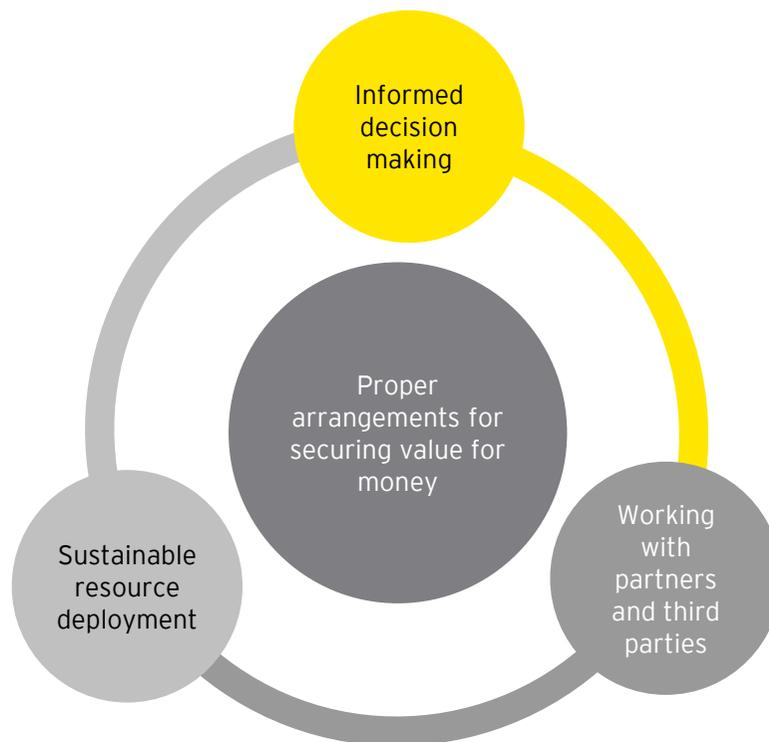
04 Value for Money

£ 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 identified the delivery of a sustainable medium term financial strategy as a significant risk to our Value for Money Conclusion in our audit planning report, which we presented to the Governance and Audit Committee in January 2018. We reviewed the Council's production of its Medium Term Financial Plan and have set out our findings overleaf.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

Value for Money (cont'd)

Significant Risk	Conclusion
<p>Delivery of a sustainable medium term financial strategy</p> <p>The Council's financial planning currently covers three years and is documented in its "Medium Term Financial Strategy (MTFS) 2017/18 to 2019/20" and its four year "Efficiency Plan 2016 to 2020". These both document how the Council intends to cover the identified £20 million funding gap to March 2020.</p> <p>The Council's significant financial challenge is also recorded in the Strategic Risk Register which includes an action to revise the MTFS by the end of Quarter 2. The Council needs to update its MTFS, as one document, to ensure that its financial planning recognises the key risks around financial sustainability over a longer period, taking account of cuts in government funding, fluctuations in income through the business rates retention scheme, uncertainties around the New Homes Bonus, the revenue cost of borrowing and the achievement of efficiency savings required through transformational change.</p> <p>The Council's transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future. However, there are no predictions as to what the funding gaps are in 2020/21 and 2021/22 will be, and therefore the savings required to continue to deliver a balanced budget in future years. We reviewed the Council's Medium Term Financial Strategy to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.</p>	<p>The delivery of the Council's strategic priorities has been underpinned by good financial forecasts, risks and assumptions which have been disclosed and reported by management to Council and Members throughout the 2017/18 financial year. The Council had appropriate processes for setting its 2017/18 and 2018/19 budgets. Budget assumptions are reasonable, although these are best estimates as there still are many uncertainties, particularly surrounding the impact of the new arrangements with Business Rates, the New Homes Bonus and the continuing uncertain economic climate.</p> <p>The medium term financial planning process is comprehensive and reported on an annual basis. The figures in the plan can be agreed to detailed working papers with reasonable assumptions. This is the first year that the Council has put together a plan which now forecasts over four years. The level of reserves are reasonable: at the end of 2017/18, the General Fund reserves were £9.047 million which is more than double the minimum level of reserves at £4 million. However, there are significant financial pressures to come in future years and the current level of reserves provides the Council with a transitional opportunity to prepare for those future pressures without the need for sudden reductions in service levels.</p>



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members 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 31st January 2018. 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

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Council's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by central government.</p>
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view, IFRS 15 will not have a material impact on the single entity financial statements as the vast majority of your income streams are taxation or grant based.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, orange, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Audit Fees

Audit Fees

Services provided by Ernst & Young

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 31st January 2018 Audit Plan.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	104,726	104,726	104,726	104,726
Total non-audit services - Housing Benefit Subsidy	25,125*	25,125	25,125	20,100
Total	129,851	129,851	129,851	124,826

* The final fee will be confirmed once we have completed our procedures on the Housing Benefit subsidy claim which is due by 30 November 2018

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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