

Annual Audit Letter

Bracknell Forest Council

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 3 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

Audit opinion and financial statements

1 I gave an unqualified opinion on the Council's accounts on 28 September 2010. The Council's accounts met statutory requirements, financial reporting standards and gave a true and fair view of its financial performance and position.

Value for money

2 I also issued an unqualified value for money conclusion stating the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Current and future challenges

3 The current economic climate and the public spending pressures are having a significant effect on councils and the services they provide. The Government's spending reviews will have an impact on the Council's Medium Term Financial Strategy.

4 The Council has a good record of making savings, but these will need to be extended in the light of the Government's current plans. More emphasis on strategic policy changes and longer term savings programmes will be required to shift the balance away from an annual round of targets to balance the revenue budget.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September, meeting the statutory target date.

Overall conclusion from the audit

5 I was able to give an unqualified opinion on the Council's financial statements on 28 September 2010. The Council achieved a better closedown of year end accounts in 2009/10 and this enabled a smoother year end audit.

6 Improvements had been made in fixed asset accounting in response to my prior year recommendations. However, weaknesses remain over the valuation of assets and this led to amendments in the accounts. This is the key issue raised for the Council's attention with regard to financial reporting. Officers are planning to address this matter during 2010/11.

Matters of internal control

7 I did not identify any significant weaknesses in your internal control arrangements. I concluded that there was an adequate control environment in place and this supported my testing strategy on the financial statements.

8 I also reviewed your Annual Governance Statement and I was satisfied that it complied with proper practice and the disclosures made were consistent with my understanding of the Council.

The Council's Icelandic banks investments

9 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £5 million deposited across two of these institutions at that point. In accordance with accounting practice, the authority considered that it was appropriate to make an impairment adjustment for the deposits in its 2008/09 accounts.

10 The Council has reviewed its impairments in 2009/10 and at 31 March 2010 has provided for a total impairment of £0.9 million. By 31 March 2010 recovery of £0.7 million had been secured. An earmarked reserve of £2.6 million has also been created.

11 In relation to Heritable bank (with whom the Council invested £2 million) information received indicates that it will recover a total of 85 per cent by the end of 2012/13 (the Council has received 35 per cent to date). The impairment for Glitner Bank (with whom the Council invested £3 million) had been based on the assumption that local authority deposits had priority status. This has now been challenged but legal advice remains that deposits have priority status under Icelandic Law. Although this is unlikely to be known until 2011/12, the impairment for 2009/10 has been calculated on this basis with recovery expected to be 100 per cent by June 2011. If priority status is not confirmed the Council expects to recover 29 per cent between October 2011 to October 2015.

12 The impairment of the principal amounts invested has been mitigated in the accounts according to government regulations. These have the effect of deferring the impact of the impairment charge on the General Fund until 2010/11.

The Pension Fund deficit

13 The Statement of Accounts, prepared in accordance with FRS 17 – Retirement Benefits, show a net pension liability of £143 million. This has significantly increased from the 2008/09 liability of £68.4 million due to the significant reductions in bond yields which have increased the liabilities of the fund, offset by smaller increases in market values of assets.

14 The 2010 triennial valuation will assess the scheme liabilities and funding position over the longer term. The actuarial review is also likely to take account of government pension policy changes in response to the Hutton report. Increased contributions may be required to ensure the pension scheme maintains an appropriate long-run funding level.

Adoption of International Financial Reporting Standards

15 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This will change the basis of reporting the figures in the annual accounts and the format of some of the core statements.

16 The Audit Commission has undertaken a national study on the transition to IFRS in local government. This study assessed councils' progress towards preparing IFRS-based accounts in phases.

17 In July this year I carried out the phase-two survey to assess the Council's progress, and I decided the Council was an 'amber' risk. This was because, at the time of the survey, the Council had a project plan in place to achieve the required preparatory work but awaited dedicated resource to progress the plan. Since August good progress has been made particularly on the classification of leases and in drafting accounting policies. The Council is on track to provide restated balances for the end of November.

18 Looking ahead the Council needs to ensure that officers have sufficient capacity and expertise going forward to meet the additional demands associated with reporting under IFRS for the first time in 2010/11.

Recommendations

R1 The Council should ensure action is taken in response to the recommendations made in my Annual Governance Report.

R2 The Council should ensure it has sufficient capacity to meet the additional demands of first time reporting under IFRS.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion. I gave an unqualified conclusion on 28 September 2010.

2009/10 use of resources assessments

19 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

20 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

21 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

22 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

23 Table 1 provides a summary of my findings at the Council in respect of these specified criteria.

Table 1: **Assessment for VFM conclusion**

The specified use of resources criteria were achieved

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

24 Based on the above, I therefore issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources for the 2009/10 year.

Assessment of arrangements

25 The Council had performed well in delivering further improvements in managing the use of resources during the 2009/10 year. These achievements are summarised below. The Council:

- continued to manage its spending well. Budget monitoring remained strong and the Council has achieved its budget for the 12th year running;
- published its Medium Term Financial Strategy and continued to keep it under review in the current economic climate;
- revised its Treasury Management strategy to take account of the latest CIPFA guidance;
- achieved a better closedown of year-end accounts enabling a smoother year-end audit;
- further developed its engagement with stakeholders;
- progressed its Service Efficiency Strategy and achieved further savings;
- continued to redesign services to achieve improvements and to meet the needs of service users better;
- strengthened its corporate approach to data quality;

- reviewed governance arrangements for most major partnerships;
- developed arrangements for and carried out scrutiny of partnerships;
- strengthened risk management;
- recognised the significance of its backlog maintenance and made a good start on developing a strategy to address it;
- refreshed its workforce plans;
- maintained a planned approach to managing the workforce implications of change; and
- was awarded the 'achieving' level of the Equality Framework for Local Government in July 2010.

Opportunities for improvement

26 I have suggested the Council focus on further improvements in its arrangements to secure value for money in the use of resources in the following areas:

Managing finances

- Continue to address the impact of the Government's spending reviews in the Council's Medium Term Financial Strategy.
- Place more emphasis on strategic policy changes and longer-run savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.

Governance arrangements

- Continue to improve procurement practice and address the internal procedural weaknesses identified.
- Keep up the momentum on improving data quality. Explore the potential for improvement from the new PARIS system where this meets business needs.
- Maintain the focus on developing the Council's governance framework by assessing how well codes and policies are complied with and understood for business critical areas.
- Self-assess the functioning of the Governance and Audit Committee against the CIPFA statement.
- Strengthen risk management within departments to cover risks for ongoing business. Arrangements have been agreed to do this. Keep up the momentum on training.

Managing resources

- Continue to consider the long term implications of the Council's maintenance backlog against other spending priorities. Some baseline capital and revenue provision has been proposed for this.
- Align workforce plans with the financial strategy and policy changes spanning a longer term horizon. Ensure they are of equal quality. Explore joint workforce plans with partners in the light of policy changes.
- Improve statutory equality plans to make them more SMART so that outcomes can easily be measured.

Recommendation

R3 The Council should consider the opportunities for improvement identified in my use of resources review and develop plans to address areas of corporate priority.

Approach to local value for money work from 2010/11

27 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

28 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

29 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The Council's finances

30 The Council set a revenue budget of £74.2 million for 2009/10. This included a planned use of reserves of £2.2 million. During the year the Council faced and managed budgetary pressures. These included reduced investment income from decreased interest rates. The recession also affected income from leisure services, commercial and industrial property rents and car parking. The Council received an exceptional item of £2.6 million for VAT repayments and also created a reserve for impaired investments in Icelandic banks. It had planned to use £2.2 million from reserves to support the budget, but the actual requirement was £1.5 million. The General Fund reserve at 31 March 2010 stood at £8.8 million.

31 Looking to the 2010/11 year, the Council's budget monitoring continues to identify in year and future income and expenditure variances, and at the mid point, spending is being contained within budget.

32 Officers and members are planning for the 2011/12 budget, although the final position for the Council will not become clear until after the government publishes the grant determination. Clearly, the public sector deficit combined with the economic downturn has been having a significant impact on public finances. It is affecting the ability of public sector bodies, including this Council, to fund service delivery and capital programmes and some sources of income continue to reduce. The government cuts in future financial support for local authorities have further increased the pressure.

33 The Council has a good record of making savings and managing in year pressure, but this will need to be extended in the light of the Government's current plans. More emphasis on strategic policy changes and longer term savings programmes will be required to shift the balance away from an annual round of targets and the use of revenue balances to balance the revenue budget.

34 My preliminary assessment indicates the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. I will further develop my assessment of financial resilience during the 2010/11 audit.

Recommendation

R4 Update the Medium Term Financial Strategy in the light of the Government spending announcements and reflect the impact of strategic policy changes and longer-run savings programmes.

Closing remarks

35 This letter has been discussed with the Chief Executive and the Borough Treasurer. I will present this letter to the Executive on 18 January 2011 and will provide copies to all Councillors.

36 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit and Inspection Plan	April 2009
Audit plan refresh 2009/10	March 2010
Pre-statement audit Memorandum	May 2010
Review of Internal Audit	June 2010
Annual Governance Report	September 2010
Final Accounts Memorandum	October 2010
Annual Audit Letter	November 2010

37 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The fees for my audit are levied in accordance with guidance issued by the Audit Commission. The audit fees for 2009/10 are detailed in Appendix 1.

38 The Council has taken a positive and helpful approach to my audit. I wish to thank officers and members of Bracknell Forest Council for their support and cooperation during the statutory audit.

Phil Sharman
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and whole of government accounts opinion	169,000	169,000	0
Value for money conclusion	73,100	73,100	0
Total audit fees	242,100	242,100	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must 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 spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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 money, people and time.

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