

# Annual Audit Letter

Bracknell Forest Council

Audit 2010/11



# Contents

---

- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Financial statements and annual governance statement.....4**
  - Overall conclusion from the audit.....4
  - Weaknesses in internal control .....4
  - Recommendation .....5
- Value for money.....6**
  - Recommendation .....8
- Current and future challenges .....9**
  - Recommendation .....11
- Closing remarks .....12**
- Appendix 1 - Fees.....13**
- Appendix 2 - Glossary.....14**

**Traffic light explanation**



Red ■ Amber ◆ Green ●

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## Audit opinion and financial statements

I issued an unqualified opinion on your financial statements on 30 September 2011. The Council:

- prepared well for the transition to IFRS;
- needs to improve arrangements for accounting for fixed assets.

## Value for money

I issued an unqualified conclusion on your arrangements for securing value for money. The Council:

- has recognised that difficult decisions about priorities and services lie ahead and has set up a framework to decide and identify options for delivering priorities;
- needs to maintain an 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.

# 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.**

## **Overall conclusion from the audit**

I issued an unqualified opinion on your financial statements on 30 September 2011.

In 2010/11 local government financial statements had to be produced under International Reporting Standards (IFRS) for the first time. Restating the accounts to comply with the requirements of IFRS was a complex task. You tackled the transition well by carrying out early preparatory work. My audit showed good overall compliance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

In previous years I have recommended the Council needed to ensure that values for assets in the financial statements properly reflect their physical size, condition, usage and estimated life. Although some progress was made in 2010/11 there remains scope for further improvement.

My audit identified some assets either not included in the asset register or included but with incorrect valuations. The quality of evidence to support some valuations undertaken was variable. My audit also identified some assets below the Council's capitalisation threshold had been incorrectly capitalised.

Looking ahead, CIPFA is currently consulting on alternative approaches to valuing infrastructure assets. To comply with potential new requirements the Council, with others, will need to develop robust highways infrastructure asset inventories and management plans to help confirm assets exist.

## **Weaknesses in internal control**

I have reviewed your Annual Governance Statement and have concluded that it accords with proper practice and is consistent with my knowledge of the Council. I did not identify any significant weaknesses in your internal control arrangements.

My audit identified scope to improve controls over journals. Some journals process transactions in the general ledger which have not already gone through feeder systems. There is currently no authorisation step for these. Officers intend to address this weakness with the planned upgrade to the financial ledger.

## Recommendation

### Recommendation

- R1** Monitor implementation of recommendations made in my annual governance report on aspects of internal financial control including:
- procedures for accounting for fixed assets
  - procedures for journal processing.
-

# 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 assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two specified areas is set out below.

---

## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p><i>Focus for 2010/11:</i></p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I have concluded that the Council has adequate arrangements to secure financial resilience. The Council:</p> <ul style="list-style-type: none"><li>■ has a long-run track record of achieving revenue budgets; in 2010/11 it achieved an underspend of £1.7 million;</li><li>■ analyses emerging budget variances and considers how they impact on the projected final out-turn. Management takes timely action to address any budget variances such as the need to make savings after the emergency budget in 2010 and took corrective action, achieving required in-year savings;</li><li>■ engages with members and staff on the financial challenges it faces;</li><li>■ is revisiting its medium term financial plans accordingly to prioritise resources and renew the Council's strategy from 2012/13; these will need to be updated for future changes in Local Government finance;</li></ul>

Criterion	Key messages
	<ul style="list-style-type: none"> <li>■ has a leadership team which provides constructive challenge on financial matters. This has included workshops with Members and CMT challenge of departmental budgets;</li> <li>■ has general fund and earmarked reserves balances to ensure there are funds to meet unexpected costs. In 2010/11 the Council was able to make a contribution to reserves of £1.1 million instead of a planned withdrawal of £0.6 million;</li> <li>■ experienced significant slippage on its planned capital programme in 2010/11. While the overall backlog remains high, the Council has targeted resources towards priority maintenance obligations;</li> <li>■ has treasury management arrangements which ensure it has sufficient cash to meet its needs - achieving a balance between security, liquidity and yield; and</li> <li>■ understands its sources of income and the risks arising from these. It reviews its approach to fees and charges and monitors the collection of income and arrears.</li> </ul> <p>The main risk to financial resilience is the challenge of achieving a balanced budget over the medium term with reduced funding.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>I have concluded that the Council has adequate arrangements for challenging how it secures economy, efficiency and effectiveness. The Council:</p> <ul style="list-style-type: none"> <li>■ has recognised that difficult decisions about priorities and services lie ahead and has set up a framework to decide and identify options for delivering priorities. Members and officers are reviewing the Council's strategic priorities and the cost-effectiveness of its activities. They are identifying cost reductions and challenging spending and investment decisions;</li> <li>■ has a focus at present on the 2012/13 budget but is aware of the financial challenges beyond that particularly as a consequence of major reforms to Local Government finance:</li> <li>■ has a track record of continuously achieving efficiencies through its Service Efficiency Strategy;</li> <li>■ has a culture of constantly reviewing services to improve delivery and uses benchmarking information to inform its service reviews;</li> <li>■ considers alternative approaches to delivering services to achieve efficiencies;</li> <li>■ has overall costs which compare well with others. The Council knows which services are higher cost and can demonstrate that these are due to priorities; and</li> </ul>

## Criterion

## Key messages

- has continued to develop its governance arrangements over the year particularly performance and risk management, and procurement. The Governance and Audit Committee has recognised the need to review its operation once the future shape of local public audit is known.

The Council needs to maintain an 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.

---

## Recommendation

### Recommendation

**R2** Maintain an emphasis on identifying policy options, and planning and delivering savings programmes which achieve long run financial sustainability for the Council.

---



# Current and future challenges

---

## Economic downturn and pressure on the public sector

The public sector deficit combined with the economic downturn are 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 Comprehensive Spending Review (CSR) refers to significant potential reductions for local government over the next 4 years. The Council has been notified of its settlement for 2011/12 and 2012/13. Beyond that the Government is consulting on the way local government is to be funded including the localisation of business rates.

The way services are being provided are also changing, such as the personalisation agenda and the reorganisation of the NHS. There are also demand led budget pressures to accommodate including services to vulnerable residents and looked after children. The Council therefore faces considerable challenges to maintain services while achieving savings.

The Council set a revenue budget of £74m for 2010/11 including a planned withdrawal from reserves of £0.6m. During the year the Council managed budgetary pressures and reporting an under spend of £1.7m and added £1.1m to reserves. The General Fund reserve at March 2011 at £10.0m provides some resilience with a declared prudent minimum of £4m.

For 2011/12, the Council has set the budget at £75m. This required savings of 5.0m and a planned use of £1.6m from reserves to fund the budget gap. The Council is currently revisiting its medium term financial plans to prioritise resources and renew its strategy from 2012/13. In doing so the Council will need to maintain an emphasis on strategic policy changes and longer term savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.

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. This assessment will be further developed as part of the review of financial resilience during the 2011/12 audit.

---

## Income streams

Income has been declining across a range of Council services, in particular income from conference and golf facilities. In 2010/11 this was partly offset by additional income from car parking, the cemetery and crematorium. In the current year income from conference facilities, car parking, building control and sports centres is under pressure. The Council is monitoring the impact of this on its budget, reviewing at risk areas and looking at optimising revenue across both current and potential income sources.

---

## Treasury management

The Council operates its Treasury Management strategy to ensure cash is available when required for short term liquidity and to fund capital. It also aims to secure investment returns from surplus funds, while managing the risks associated with this.

The Council set its 2011/12 budget anticipating that low short-term interest rates and reduced cash balances to earn interest would put pressure on investment yields. Looking ahead there remains considerable uncertainty about the Eurozone sovereign debt crisis and the speed of economic recovery. In addition interest rates are forecast to remain low. This will impact on investment returns in 2012/13.

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 Council has made an annual assessment of the recoverability of these investments and provided for potential losses together with an earmarked reserve of £2.3m.

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 60 per cent to date).

In terms of Glitner Bank (with whom the Council invested £3 million) position is dependent upon whether the Supreme Court upholds Local Authorities deposits as priority creditors. If priority status is not confirmed the anticipated full recovery will fall to 35 per cent. A decision is expected shortly and any impairment will be accounted for in 2011/12.

---

## Recommendation

### Recommendation

**R3** In the context of broader changes to the Local Government financial regime, demonstrate the Council's continuing financial resilience by updating the Medium Term Financial Strategy to reflect the impact of strategic policy changes and longer-run savings programmes.

---

# Closing remarks

---

I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Governance and Audit Committee on 8 November 2011 and will provide copies to all members of Bracknell Forest Council.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued during the year.

Report	Date issued
Audit fee letter	March 2010
Audit plan	March 2011
IFRS report to officers	March 2011
Annual Governance Report	September 2011
Audit opinion and value for money conclusion	30 September 2011
Final accounts memorandum to officers	November 2011
Annual Audit Letter	November 2011
Certification of claims and returns – annual report	expected January 2012

The Council has taken a positive and constructive approach to our audit. This will be the last Annual Audit Letter that I will present to the Council during my term of office as external auditor. Accordingly I would like to thank both officers and members for their support and co-operation to me and my audit team during my appointment.

Phil Sharman  
*District Auditor*

November 2011

# Appendix 1 - Fees

---

	Actual	Proposed	Variance
Scale fee	£256,600	£256,600	£0
Non-audit work - review of performance management arrangements	£2,500	£0	£2,500
<b>Total</b>	<b>£259,100</b>	<b>£256,600</b>	<b>£2,500</b>

# 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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

