ANNEX

Bracknell Forest Council

Governance and Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

Building a better working world

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Section 1

Executive summary

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Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance & Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- As of 11 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements to a high standard.
- We have not received any formal objections. However, we are dealing with correspondence from a member of the public about a matter which is not related to an item in the financial statements.

Value for money

- We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

- Our audit was designed to:
  - express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
  - report on an exception basis on the Annual Governance Statement;
  - consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
  - discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the whole of government accounts work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
Risk of management override 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. For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	We have undertaken the following audit procedures: ► tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewed accounting estimates for evidence of management bias; ► evaluated the business rationale for significant unusual transactions; and ► reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	We have completed our testing in each of the areas. We have not identified any issues and we have assurance in each area.
Valuation of Property, Plant and Equipment Valuations of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements. In 2014/15, the Council proposed making use of its external valuer more extensively than in previous years, including the revaluation of schools assets. Early feedback from Council officers suggested that a change in estimation methodology by the new valuers would have a significant impact on the asset values disclosed in the financial statements.	Following early discussions, the Council decided to use its internal valuers for the school asset revaluation exercise. Therefore the level of risk associated with valuation reduced. We undertook our standard audit procedures to gain assurance over the valuation of property assets.	No issues have been identified from our testing of property valuations.

Addressing audit risks – significant audit risks (cont'd)

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
Non-Domestic Rates (NDR) rateable value appeals provision The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme a proportion of the business rates collected by councils are retained locally with the balance paid over to central government. The Council accounted for this scheme in 2013/14, appointing Analyse Local as experts to inform the estimation of the provision calculation. In 2014/15, significant challenges remained in the calculation of this provision due to the ongoing appeals process. The potential cost of successful rateable value appeals could again have been significant to the Council. The Council appointed Rates Plus as experts to inform this calculation as there is a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.	We have understood and assessed the reasonableness of the Council's methodology in estimating the planned provision in respect of rateable value appeals outstanding at the balance sheet date. We have considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success. We have reviewed and relied on the work of the experts appointed by management to assist in this process.	No issues have arisen from our testing, and we have gained the required assurance in this area.

Addressing audit risks – other audit risks

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
Accounting for schools CIPFA has set out, in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 Appendix E, its view that based on the indicators of control within IFRS 10, the balance of control lies with local authorities for all maintained schools. The definition of maintained schools includes community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. The Code requires the recognition of schools' property, plant and equipment in line with relevant accounting standards. CIPFA subsequently issued, in December 2014, LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools'. This suggests that where religious bodies provide buildings to voluntary aided and voluntary controlled schools, and these bodies are able to withdraw the buildings at any point, the buildings would not be an asset of the school. In this case they would therefore not be included in the Council's balance sheet. As a change in accounting policy this would require the balance sheet as at 1 April 2013 to be restated to show the impact of the new policy together with the balance sheet at 31 March 2014. The Council believes that no changes will be required to the way it currently accounts for schools, so no restatements will be required.	We have reviewed the Council's arrangements for considering accounting for schools against the requirements of the 2014/15 Code and the LAAP bulletin.	No issues arising, the Council complies with the guidance in the LAAP bulletin and no changes to existing accounting policies were required in 2014/15.

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Governance & Audit Committee meeting:
  - finalisation of expenditure transactional testing
  - testing of officers remuneration and exit packages
  - receipt of a Letter of Representation
  - receipt and checking of final revised statements
  - final Director review of the financial statements
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- As at 11 September 2015 we have not identified any uncorrected misstatements within the draft financial statements.

Corrected misstatements

- Our audit did not identify any misstatements.

Other matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
  - qualitative aspects of your accounting practices; estimates and disclosures;
  - matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - any significant difficulties encountered during the audit; and
  - other audit matters of governance interest

We have no matters we wish to report.

Financial statements audit – application of materiality

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	
Planning Materiality and Tolerable error	We determined planning materiality to be £5.982 million which is 2% of gross expenditure reported in the accounts of £299 million consisting of cost of services, other operating expenditure and financing expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We have set tolerable error at the higher level of the available range because there were limited errors reported in the Authority's 2013/14 financial statements.
Reporting Threshold	We agreed with the Governance and Audit Committee that we would report to the Committee all audit differences in excess of £0.299 million.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas,. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: review and test transactions to supporting evidence and approvals.
- Member allowances and audit fees. Strategy applied: review and test transactions to supporting evidence and approvals.
- Related party transactions. Strategy applied: review disclosure for completeness, testing to supporting evidence.

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

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- 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.
- We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We have reviewed the Annual Governance Statement and can confirm that:
  - it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - it is consistent with other information that we are aware of from our audit of the financial statements.
- 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.

Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any non-standard representations at this time.

Whole of Government Accounts

- Alongside our work on the financial statements, we also review and report to the National Audit Office on your whole of government accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- The Council is below the £350 million reporting threshold, therefore we are not required to review the data collection tool in detail.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Bracknell Forest Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'

- We identified two significant risks in relation to these criteria:
  - **Longer-term financial planning and resilience in a challenging financial environment**
  - **Better Care Fund**

- Findings in relation to significant risks:
- **Longer-term financial planning and resilience in a challenging financial environment**
  - The overall medium term funding position is becoming clearer but remains a work in progress. The Council is fully aware of the need to reduce the identified gap between funding and expenditure and is looking at all avenues to do so. The improvements made to the systems for planning and budgeting will aid this process.
  - See detailed findings on page 16
- **Better Care Fund**
  - 2014/15 has seen significant progress on the Better Care Fund prior to the Fund going live on 1 April 2015. The governance structures that oversee the Fund are in place and will continue to develop.
  - See detailed findings on page 17

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertaken additional audit work to enable them to reach an appropriate conclusion.

VFM risk identified within our Audit Plan
Financial resilience and Economy Efficiency and Effectiveness

Longer-term financial planning and resilience in a challenging financial environment

The Council continues to support the ambitious town centre redevelopment and has significantly increased its capital programme. This will require the Council borrowing to support delivery of the programme from 2016/17 at the earliest and increasing significantly in 2017/18 as per the Treasury Management Strategy.

The movement towards a net borrowing position represents a significant change in the funding arrangements of the Council, and takes place alongside an increasingly challenged financial environment for the public sector in general and local government in particular. It offers opportunities for extra investment as well as risks from increased financial commitments.

The Council will need to develop appropriate risk management and governance arrangements to support its longer-term financial planning. This will include ensuring there is sufficient corporate knowledge and expertise to support successful delivery of these longer-term plans.

Findings

The town centre development is now fully underway and all the funding streams are in place and understood. There are clearly a number of variables which will impact on the medium to long term financial position that cannot be quantified at the present; such as how successful the development will be after such a long delay, how the Council budgets for the future income streams, etc, but the position is now clearer than 2013/14. This clarity has allowed the Council to understand better the medium term budgeting implications, and it now has a package in place to deliver more effective forward plans, as well as the ability to adapt and flex those plans as assumptions change. However, this needs to be embedded into the Council's processes and include capital transactions.

The Council commissioned public sector specialists LG Futures to provide a forecasting package which has produced a five year plan to a level of detail beyond the previous three year plan. This plan will be laid before Council in September 2015. The forecast gap currently stands at £25 million over the next five years, and makes allowance for unknown factors, for example: new budget pressures, potential increases in council tax or business rates, and income associated with new housing income. We also note the gap does not include any significant reserve contributions at this stage. The Council is continuing to develop plans to address the forecast gap, and progress will continue during 2015/16, including taking account of the funding implications from the November 2015 government spending review and the provisional local government settlement in December 2015.

Therefore, the overall medium term funding position is beginning to become clearer but remains a 'work in progress'. The Council is fully aware of the need to reduce the identified gap between funding and expenditure and is looking at all avenues to do so. The improvements made to the systems for planning and budgeting will aid this process.

Addressing audit risks – significant VFM risks

VFM risk identified within our Audit Plan
Financial resilience and Economy Efficiency and Effectiveness

Better Care Fund

The Better Care Fund is a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities.

We concluded last year that the Council was taking appropriate action to address the risks associated with Better Care Funding and will adopt a suitably prudent and fiscally cautious approach in implementing its plans.

With increasing demand for these services – and against the wider financial challenges facing both health and local government – the Council needs to balance effective delivery with the financial pressures placed on this Fund. The Council needs to ensure its involvement in developing the key infrastructure to deliver this initiative balances sufficient involvement to ensure systems are in place to support the structures with ensuring it is not exposed to additional risks and financial costs from so doing.

Findings

2014/15 has seen significant progress on the arrangements relating to the Better Care Fund prior to the Fund going live on 1 April 2015. We reported in 2013/14 that the Council and its partners had more to do to develop the plan and its supporting infrastructure and governance arrangements. The Council's plan was submitted in September 2014 and approved in October 2014 with conditions (and NHS England endorsement that "the plan is strong"). This was followed by further embedding of the governance processes delivered by the Health and wellbeing Board and underpinned by the Better Care Fund Programme Board and the Better Care Fund Steering Group. Our review has found that the various committees have the appropriate level of membership, and attendance, from the various stakeholder groups, in particular, the Council, the Clinical Commissioning Group (CCG), the Foundation Trust, etc. These arrangements have enabled to Fund to commence successfully on 1 April 2015 and, as at the date of this report, report formally on the first quarter of 2015/16 to the requirements required by NHS England, with no significant budgetary deficiencies, which demonstrates that the reporting arrangements in place are sound.

As required by the Department of Health, a pooled budget and associated schedules were approved before the start of the 2015/16 financial year. These reflected the plan as approved by the Council, the CCG and ultimately the Health and Wellbeing Board. Ongoing monitoring of the schemes within the plan, finance, performance indicators and risks are reported to all meetings of the BCF Steering Group and BCF Programme Board. A robust governance structure for the fund was established in 2014/15 as described in the BCF plan which was approved by the Department of Health in December 2014. As schemes within the programme progress, the governance structure has evolved to deliver and monitor individual projects e.g. the Falls Programme Board. Membership of the Steering Group and Programme Board is reviewed regularly and has expanded to include further stakeholders, e.g. Berkshire Healthcare NHS Foundation Trust.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- We confirm there have been no changes in our assessment of independence since our confirmation in our Audit Plan 25 March 2015.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 of regulatory and professional requirements.
- We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit Committee on 23 September 2015.
- We confirm that we have met the reporting requirements to the Governance and Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 25 March 2015.

Audit fees

- The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	139,634	139,634	-
Certification of claims and returns	41,580	41,580	Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. This will be reviewed in light of the work required in 2014/15.
Non-Audit work	62,000		A breakdown of this was given in the Audit Plan of 25 March 2015

- Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- We confirm that we have undertaken any non-audit work outside of the Audit Commission's Audit Code requirements. The work undertaken related to:
  - Central Berkshire Waste PFI
  - Various VAT/stamp duty advice in relation to the Town Centre and Blue Mountain developments
  - Teachers' pension grant certification for the year ended 31 March 2014

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ED None

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