

Bracknell Forest Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



The Members
Bracknell Forest Council
Easthampstead House
Town Square
Bracknell
Berkshire
RG12 1AQ

16 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the 23 September Governance and Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Bracknell Forest Council.

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

This is my final year as Executive Director for Bracknell Forest Council. I would like to extend my thanks to officers and members for their assistance over my time as engagement lead. I will work with my successor, Kate Handy (KHandy@uk.ey.com), to facilitate a smooth handover and she will introduce herself to officers and members at upcoming meetings.

Yours faithfully



Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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.

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with the Audit Plan issued on 25 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement. In the Annual Governance Statement 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 having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's Annual Governance Statement;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Bracknell Forest Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 23 September 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 23 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack prepared by the Council for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 23 September 2015.
Consider the completeness of disclosures on the Council's Annual Governance Statement, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	The Council was below the £350 million reporting threshold.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

Area of work

Result

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 23 September 2015 to the Governance and Audit Committee.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 23 September 2015.

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 23 September 2015.

Our detailed findings were reported to the Governance and Audit Committee on 23 September 2015. We did not identify any errors or misstatements in the financial statements presented for audit, demonstrating the Council prepared its financial statements to a high standard.

The main issues identified as part of our audit were:

Significant risk 1: 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.

Findings:

We 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.

No issues were identified from our testing

Significant risk 2: 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.

Findings:

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 were identified from our testing of property valuations.

Significant risk 3: 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.

Findings:

We reviewed 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 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 reviewed and relied on the work of the experts appointed by management to assist in this process.

No issues were identified from this testing.

Other risk 1: Accounting for schools

CIPFA 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.

We reviewed the Council's assessment that no changes were required to the way it currently accounts for schools, and we did not identify any issues with this assessment.

2.2 Value for money conclusion

As part of our work we also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 23 September 2015.

We noted the following findings as part of our audit.

Key finding 1: Financial resilience and economy efficiency and effectiveness

The Council continues to support the ambitious town centre redevelopment and has significantly increased its capital programme. This will require the Council to:

- borrow to support delivery of the programme from 2016-17 at the earliest and increasing significantly in 2017-18 as per the Treasury Management Strategy.
- develop appropriate risk management and governance arrangements to support its longer-term financial planning.

Findings

The Council has made good progress in this area in 2014-15, with plans now underway and funding streams fully understood. 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.

The forecast budget 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.. 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.

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.

Key finding 2: Better Care Fund

The Better Care Fund (BCF) is a single pooled budget for health and social care services to work more closely together in local areas.

With increasing demand for these services, 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

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.

Our review found 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), and the Foundation Trust. These arrangements have enabled the 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, demonstrating the reporting arrangements in place are sound.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. The Council is below the £350 million reporting threshold and therefore no audit work was required.

We had no issues to report.

2.4 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 which we know about from our work; and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Governance and Audit Committee on 23 September 2015. In our professional judgement, the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the annual certification report for 2014-15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Description	Impact
<p>Highways Network Assets (formerly Transport Infrastructure Assets)</p> <p>The invitation to comment on the Code of Accounting Practice for 2016-17 (ITC) sets out the requirements to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department, which will also have to be valued on the revised basis.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>CIPFA have produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015)</i>.</p> <p>The Council need to ensure they have arrangements in place to meet the disclosure requirements of the Code and may need to consider:</p> <ul style="list-style-type: none"> • The need to demonstrate completeness of base information, working closely with highways and other relevant departments. • The need to ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that, from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>

5. Fees

Our fee for 2014-15 is in line with the scale fee set by the Audit Commission and reported in our 25 March 2015 Audit Plan and 23 September Annual Results Report.

	Final fee 2014-15	Scale fee 2014-15
Total Audit Fee – Code work	£139,634	£139,634
Total Audit Fee – Certification of claims and returns	£41,580*	£41,580
Non-audit work	£62,000**	£62,000

* 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.

** A breakdown of this was given in the Audit Plan of 25 March 2015.

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