

Bracknell Forest Council

Annual Audit Letter for the year ended 31 March 2017

September 2017

Ernst & Young LLP

Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit	10
Value for Money	14
Other Reporting Issues.....	18
Focused on your future.....	21
Appendix A Audit Fees	24

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.psaa.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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Bracknell Forest Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified opinion issued on 27 July 2017 - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ 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 Governance Statement	The 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. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 27 July 2017.
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 certificate was issued on 27 July 2017 2017.

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

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



Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

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 2016/17 Audit Results Report to the 26 July 2017 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

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 29 March 2017 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 2016/17 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 £350 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.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers with charts and tables are visible. The overall lighting is bright and natural, suggesting a window nearby.

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 27 July 2017.

Our detailed findings were reported to the 26 July 2017 Governance and Audit Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any transactions during our audit which appeared unusual or outside the Authority's normal course of business. This conclusion was based on:</p> <ul style="list-style-type: none">▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;▶ review and testing of accounting estimates (NNDR provisions, IAS 19 pension transactions, and property plant and equipment balances) for evidence of management bias; and▶ evaluation of the business rationale for any significant unusual transactions.

Other Key Findings	Conclusion
<p>The Council is setting up a Local Housing Company (Downshire Homes Ltd) to procure accommodation to provide homes for homeless households, households with learning disabilities and/or autism and care leavers so as to reduce Council expenditure on accommodation. The Council has agreed to loan the company £6.332 million in 2016/17 to acquire properties. Under IFRS 10 the company is a wholly owned subsidiary where the Council has full control over the company. As such, the preparation of group accounts is indicated by the accounting standard. However, the Council does not consider the loan material and will not be preparing group accounts. Our quantitative materiality for the 2016/17 audit is initially assessed as £5.6 million and there is a risk that the financial statements will be materially misstated if the accounting treatment is not fully compliant with the requirements of IFRS 10.</p>	<p>The 2016/17 Code highlights the importance of the consideration of materiality when preparing disclosures for local authority financial statements. A loan of £6.332 million was made to Downshire Homes in 2016/17 and our final audit materiality threshold was £5.5 million for 2016/17. However, the Code definition of materiality is not simply a quantitative consideration and the Council views the preparation of group accounts would confuse the reader of the accounts rather than enhance the understanding, particularly as the amount involved represents less than 1% of the asset base. We have accepted this conclusion but note that as more funds pass to Downshire Homes, the case for group accounts will become unequivocal.</p>
<p>The PFI Accounting Model for the Waste PFI produces a number of material balances within the Council's financial statements. We have also noted that Reading Borough Council, the lead for this scheme, has requested a revaluation of the PFI asset in 2016/17. We plan to undertake a number of specific procedures to provide assurance that the accounting models produce materially correct information in the Council's accounts.</p>	<p>We carried out our year end procedures and found that the information within the PFI note is materially correct. This was supported by our internal expert who has audited the revalued PFI asset at Reading Borough Council.</p>

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	We planned our procedures using a materiality of £5.6 million. We reassessed this using the actual year-end figures, which decreased this amount to £5.5 million. The threshold for reporting audit differences decreased from £4.22 million to £4.16 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure, which is considered the sector norm for a local government body with a similar risk profile to Bracknell Forest Council.
Reporting threshold	We agreed with the Governance and Audit Committee that we would report to the Committee all audit corrected audit differences in excess of £4.22 million and all uncorrected differences over £110,880.

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 the account balances. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Related party transactions; and
- Members' allowances.

We did not set a numerical materiality level in these areas given their inherent sensitivity.

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



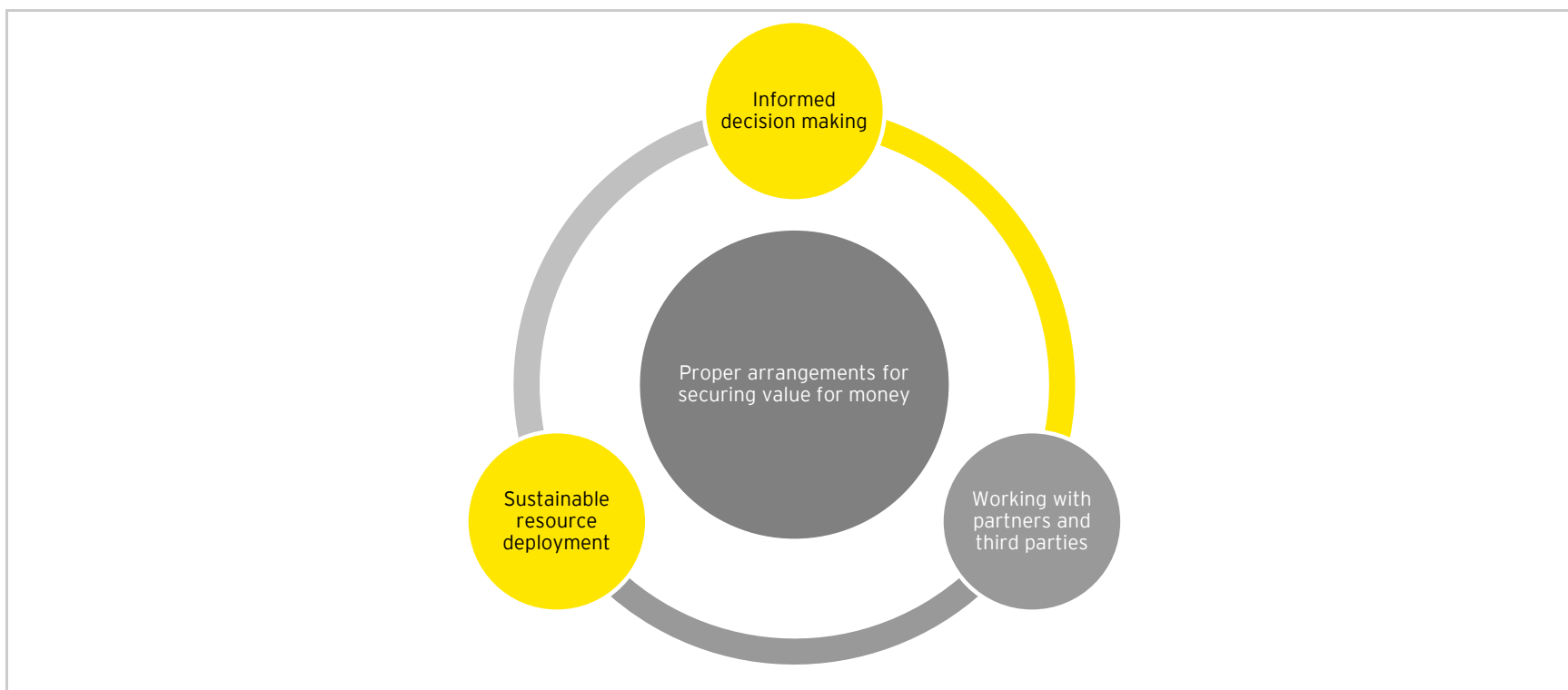
Value for Money

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 one significant risk in relation to these arrangements. The table below presents the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan, and our findings are set out on the following page. 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.

We therefore issued an unqualified value for money conclusion on 27 July 2017.

Significant Risk	Conclusion
<p>The budget strategy presented to the Executive on 18 July 2016 showed that the Council faced a cumulative £23 million budget gap to the year 2019/20. In order to balance the 2016/17 budget the Council increased council tax by 3.99% and used general reserve contributions of £1.7 million. A further £7 million withdrawal from reserves, phased over the next three years, will reduce general reserves to the Council's determined prudent level of £4 million, and provide ongoing support to the revenue budget. However, a significant cumulative budget gap still existed and the Council's Transformation Board was tasked with delivering further savings in 2016/17 and 2017/18.</p> <p>These measures alone were not considered sufficient to meet the ongoing challenge, and in October 2016 the Council produced an efficiency plan to identify further areas of savings across the four years from 2016/17. This was grounded in the certainty of an agreed four year financial settlement agreed with government. The efficiency plan includes detailed review of service areas and the setting of revised budget targets. The plan is not fixed and remains under constant review to ensure that it remains realistic and deliverable.</p> <p>This plan is considered robust and the Council has a nineteen year history of delivering balanced budgets. However, the scale of the financial challenge is unprecedented and there is a risk that these may not be achieved.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • updating our understanding of how the Council has identified the required savings; • reviewing the robustness of the underlying budget assumptions, e.g. the certainty of New Homes Bonus income; • reviewing the details of savings plans for 2017/18; and • reviewing the updated medium term financial strategy for details on longer term savings requirements. <p>Since we originally identified a significant risk in early 2015/16, the Council has taken positive steps to address the cumulative deficit. Although plans were in place in 2015/16, these were not formulated into a coherent medium term strategy. At the date of our opinion in 2016, the short term gap appeared to have been covered but the medium term position, and its underlying assumptions, were unconfirmed and unmitigated and not subject to sensitivity analyses. However, the transformation programme has now examined the gap in a far more detailed manner and produced efficiency and savings plans that are underpinned by more detailed considerations and robust assumptions at the service level. These have also been endorsed and approved at Executive level. These now form a fully documented set of medium term plans covering the period up to 31 March 2020, although these still need to be incorporated into a single document.</p> <p>However, £23 million is still a significant gap to close and the Council needs all of the identified efficiencies to be realised. Inevitably there will be challenges, such as changes to interest rates and maintaining the planned levels of business rates income. A contingency of £1 million has been identified but this offers only limited support against the cumulative budget deficit. As such, the plans and underlying assumptions need to be subject to detailed ongoing discussion and regular review at both a strategic and operational level to ensure the cumulative deficit is cleared by the end of 2019/20.</p>



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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.

Objections Received

We did not receive any objections to the 2016/17 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 26 July 2017. 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

As part of our work, we obtained an understanding of internal control sufficient 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. As such, our audit did not identify any controls issues to bring to the attention of the Governance and Audit Committee.

Focused on your
future



Focused on your future

Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has taken a number of steps which includes a successful 'dry run' of the early closedown in 2016/17, which included convening a July meeting of the Governance and Audit Committee. This resulted in an early opinion sign off on 27 July 2017. Therefore, the Council is well placed to meet the new requirement. However, with the 31 July deadline now mandatory the scope for slippage has now gone.
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 ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items. <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</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>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories

Area	Issue	Impact
	<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>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<ul style="list-style-type: none"> ▶ Identify relevant performance obligations and allocate income to each ▶ Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
IFRS 16 Leases	<p>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 in 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, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</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 classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 26 July 2017 Audit Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2016/17 £	PSAA Scale Fee 2016/17 £	Final Fee 2016/17 £
Total Audit Fee - Code work	104,726	104,726	104,726	104,726
Total Audit Fee - Certification of claims and returns	25,075	25,125	25,125	Tbc*

*the certification work on the 2016/17 Housing Benefit claim does not conclude until October 2017 and we will confirm the final fee in our certification of claims and returns report, which will be brought to the Governance and Audit Committee in early 2018.

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

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ED None

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