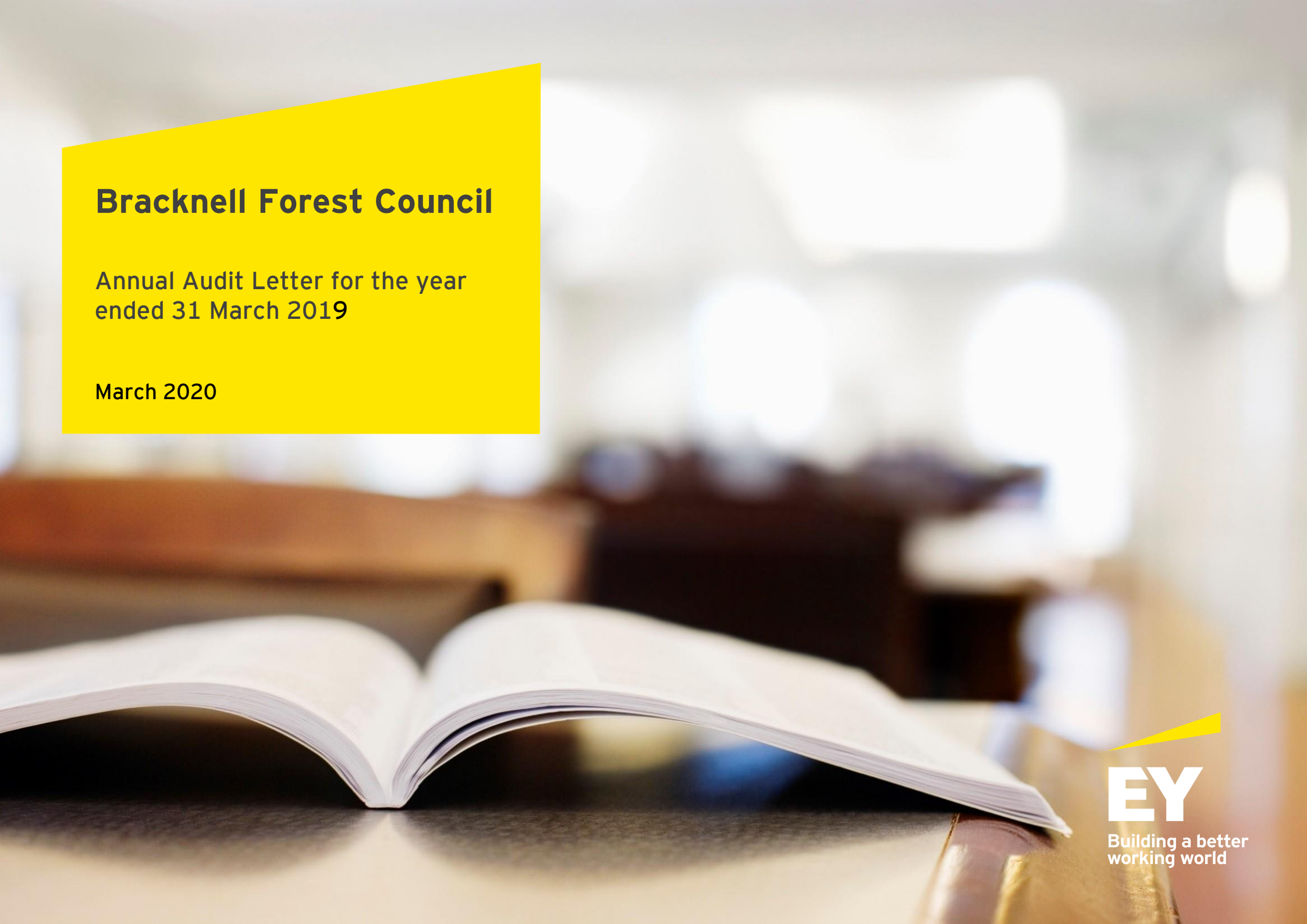
Bracknell Forest Council

Annual Audit Letter for the year ended 31 March 2019

March 2020



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Contents

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).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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.

01 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 2019. 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 – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 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 Annual 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.

Executive Summary (cont'd)

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.

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 first issued in July 2019 and considered by the Governance and Audit Committee on 24 July 2019. It has been updated and circulated for committee members ahead of the Governance and Audit Committee meeting on 26 March 2020.
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 9 March 2020.

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

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

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 2018/19 Audit Results Report to the 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 of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 30 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 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 £500m. 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.

03 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 other guidance issued by the National Audit Office and issued an unqualified audit report on 9 March 2019.

Our detailed findings were reported to the January and March Governance and Audit Committees.

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

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.	We: ▸ wrote to the s151 officer, Chair of the Governance and Audit Committee and the Head of Internal Audit in this regard and reviewed their responses; ▸ documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed; ▸ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▸ reviewed accounting estimates for evidence of management bias; and ▸ evaluated the business rationale for any significant unusual transactions. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risks	Conclusion
Risk of fraud in revenue and expenditure recognition – Capitalisation of revenue expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	We: ▸ documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed; ▸ designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and ▸ amended our sample sizes when testing PPE additions to reflect the existence of this risk, agreeing samples to source documentation to ensure the classification was reasonable Our testing did not identify any material misstatements from revenue and expenditure recognition.
Pension Net Liability: The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.	We are satisfied that the Council correctly reflected the revised IAS 19 entries provided by their actuaries in the final set of financial statements. We are also satisfied that the actuaries are appropriately qualified and the reasonableness of their assumptions. We have liaised with the auditors of Berkshire Pension Fund, and received most of the required information in January 2020. However we had to perform additional pension scheme testing in January. The audit of the Berkshire County Pension Fund identified that the pension fund assets were overstated due to the valuation methods used, and the net liability position of the fund needed to be increased. The proportion of the increase which relates to Bracknell Forest's share of net pension liability is £8.991 million. This year, there has been an ongoing national issue which has meant that another change was required to the Council's pension net liability. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". The financial statements were amended as a result, increasing the past service cost by £4.4 million, which increased the pension liability by the same amount. Disclosures amendments were made to clarify how this ruling was included in the accounts. An amendment was also made to the disclosures to include all movements relating to actuarial assumptions. Bracknell Forest's share of the valuation of the Pension Fund assets was also amended during the course of the audit, decreasing them by £3.5 million to £262.0 million. This was based on the pension scheme actuary updating their valuation of the assets from their initial estimation at the balance sheet date.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other key findings	Conclusion
Valuation of Property, Plant and Equipment, and Investment Properties. The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent the following significant balances in the Council's accounts: • Investment properties - £127.176 million • Land and buildings - £386.873 million We selected a sample within these asset categories to test the assumptions and inputs that were used in their valuation. Management are required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population.	We assessed the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations as reasonable. As part of our audit, the Council provided an analysis of the rolling programme of valuations and applied relevant indices, dependent on the last revaluation date for the asset class. This provided an indication as to whether the valuation of assets not revalued in year could be materially different to the value disclosed in the financial statements. We reviewed this analysis and challenged the Council on its appropriateness, concluding that changes needed to be made to ensure the relevant indices were applied based on the asset type and value. As a result of subsequent calculations there was a judgemental audit difference of £15.6m. The Council has agreed to: • make an adjustment of £14.5m; and • report the unadjusted remaining difference of £1.1m in their management representation letter.
NDR Appeals Provision The Non Domestic Rates Appeals Provision is a judgemental balance in the Council's financial statements which is underpinned by a number of assumptions. The movement of the NDR Appeals Provision in 2018/19 was significant from an opening balance of £7.592 million to a closing balance of £9.416 million at 31 March 2019. The provision for NDR for 2018/19 was increased to reflect the latest information, at 31 March 2019. The position difficult to predict following the 2017 valuation and the Valuation Office Agency's (VOA) Check, Challenge and Appeal process. We needed to revisit the assumptions underpinning the NDR provision for the 2018/19 accounts based on the most up to date information available.	We: ▸ reviewed the calculation of the provision for accuracy; ▸ reviewed the assumptions used in the calculation based on the latest information in 2018/19; ▸ considered the Council's use of its expert, Rates Plus, involved in the calculation. We have no issues to report

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
PFI Accounting PFI is a complex area and we commissioned a detailed review of the Waste Recycling Group RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils. Our work, by our PFI specialist: ▸ included a review of the assumptions used in the Waste PFI accounting model; ▸ commented on local adjustments, made by Bracknell Forest Council, following the changes to the accounting model held by the host council, Reading Borough Council; ▸ reviewed the planned entries and disclosures for the Council's 18/19 accounts.	▸ We have no other issues to report.
New Accounting standards: IFRS9 Financial Instruments. This new accounting standard was applicable for local authority accounts from the 2018/19 financial year and changed how financial instruments are classified and measured, how the impairment of financial assets are calculated, and amend the disclosure requirements.	▸ The Council's draft financial statements reflected sufficient and appropriate knowledge of the new accounting standard. The required disclosures for the transition from IAS39 to IFRS9 were present within the accounts.
New Accounting standards: IFRS15 Revenue from Contracts with Customers This new accounting standard was applicable for local authority accounts from the 2018/19 financial year. 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.	▸ We reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues; ▸ For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and that the disclosures were in line with the requirements of IFRS 15.

Financial Statement Audit (cont'd)

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 determined planning materiality to be £5.6 million, which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance and Audit Committee that we would report to the Committee all audit differences in excess of £278k.

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:
- Related party transactions.

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

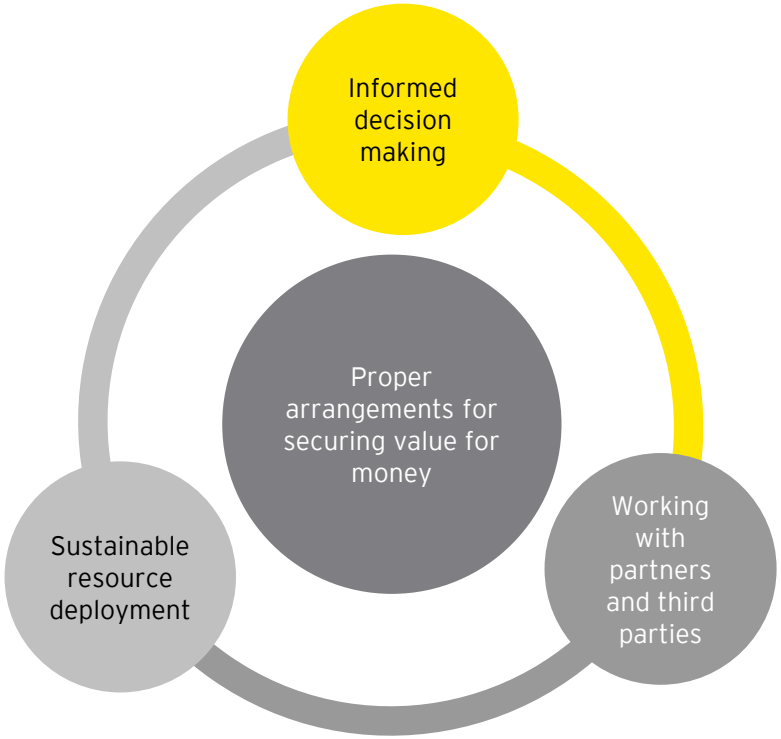
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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 two significant risks. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

We found no issues and therefore have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What we did
Delivery of a robust Medium Term Financial Plan (MTFP)		
In the Council's four year Medium Term Financial Plan (MTFP), reported to Cabinet in February 2018, the Council set a balanced budget for 2018/19. However, the cumulative shortfall of the MTFP through to 2020/21 is £9.4m, of which a £6m gap is predicted for 2020/21. The Council has a strategy in place to resolve the shortfall which is driven by commercial investment and transformational projects. The Council's transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future, Progress is being made in the achievement of some £10.4 million of transformation savings and some £3.8 million of efficiency savings over the period of the MTFP until 2021/2022. There is also the planned "managed use" of the Council's Future Funding Reserve to smooth the impact of the Government planned changes to local government funding in 2020/21 . £1 million of reserves was planned to be used in the Council's 2016 – 2020 Efficiency Plan as part of setting a balanced budget for 2019/20. However, there is significant demand increases for Children's Social Care causing financial pressure in 18/19 and in future years which will require a higher level of savings and additional income than originally predicted to balance the 2019/20 budget. The Council's commercial programme is being accelerated in order to deliver its planned target of £3 million of income generation by 2019/20. The current focus of the Council's Corporate Management Team is, therefore, its need to review its prioritisation of transformation and enabling resources to continue its successful delivery of change. We will review the Council's Medium Term Financial Plan to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.	Deploy resources in a sustainable manner	We: • assessed the key assumptions made within the annual budget and MTFP; • reviewed the progress made in identifying savings for 2019/20 and beyond; • assessed the effectiveness of project management by the Transformation Board in overseeing transformational projects and income generation opportunities; • reviewed the Council's business planning process for both generating savings and also undertaking commercial projects; Our findings are summarised overleaf.

Delivery of a robust Medium Term Financial Plan (MTFP)

The Council is currently taking steps towards improving its financial resilience and long-term sustainability whilst demonstrating prudence in relation to medium-term financial planning, identifying future savings as well as commercialisation arrangements. The financial resilience tool indicates that the Medium Term Financial Plan (MTFP) may be sufficiently financially resilient. We have reviewed the key assumptions of the MTFP and obtained related working papers from the client which support the conclusion that all key assumptions appear reasonable. Assumptions and key elements of the MTFP are monitored on a quarterly basis by the Council. This allows the Council to keep track of actual to plan, and means it can take swift action that may include revising its estimates of subsequent financial years.

The delivery of the Council's strategic priorities has been underpinned by good financial forecasts, risks and assumptions which have been disclosed and reported by management to Council and to Members in 2019/20. As outlined in the Council's Efficiency Plan 2016-20 and the 2017/18 – 2019/20 MTFS, the Council considers the following measures when working towards achieving a balanced budget:

- taking a firm line to limit future year's pressures
- delivering efficiency savings and reducing back office costs
- increasing the Council Tax
- utilising available balances
- implementing transformational savings

The Council's transformational change programme is critical in enabling it to deliver the level of savings needed for a sustainable financial future. With the predicted level of additional savings expected to fall beyond 2020 (given most of the services will have been subject to a detailed review by then), it is likely that greater reliance will be placed upon Council Tax income to fund any budget gap(s). Council Tax was assumed to be at the maximum permissible amount of 2.99% in the 19/20 Revenue Budget and subsequent years in the MTFP. Additionally, the Future Funding Reserve has been created, supplemented through additional income from the Business Rate Pilot scheme(s), to help manage the transition to alternative funding arrangements.

It is important for the Council to find the right balance between achieving the significant savings outlined and budgeted in the MTFP to fund the budget gap whilst at the same time maintaining a certain level of service provision. Overall the Council has identified savings to date, whilst noting that improvements need to be made to continue to generate additional savings.

A risk will continue to remain upon the delivery of significant savings through the transformation programme. This has been acknowledged in budget papers and the Council's Strategic Risk register. This risk is likely to become even greater given the various financial uncertainties the Council currently faces and will continue to face in the future.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What we did
Commercialisation and the purchase of investment properties		
By November 2017, one year after the Council approved its Commercial Property Investment Strategy (CPIS), the Council has completed on the purchase of 5 properties at a total cost of £70 million. However the Council's CPIS may not deliver the target £3 million income by 2019/20 and therefore £20 million has been released from the 2018/19 capital programme to accelerate delivery of the CPIS programme which now totals £90 million. The Council uses an evaluation tool, to assist its Executive Committee in reviewing each investment opportunity, showing which parameters are acceptable for consideration and those which are not. It appears that all investments are subject to a full external due diligence process, which includes a building condition surveys including all M&E, independent RICS valuations and a legal audit as well as officer site inspection and market consideration. Any items considered less than satisfactory are reported. The Prudential Code, issued by CIPFA has always contained a statement (paragraph 46) that local authorities should not borrow more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. However, paragraph 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. We will review the Council's arrangements for the purchase of investment properties to ensure that they are adequate in terms of providing value for money and comply with proper governance and risk management arrangements.	Deploy resources in a sustainable manner	We reviewed: • The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; • Legal powers and other advice obtained e.g. tax, investment decisions; • Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • The Council's MRP policy; • Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; • Recognition and reporting of risks in the Council's strategic risk register. We also considered the extent to which the Council has demonstrated the key Prudential Code considerations: • Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality; • Demonstrating value for money in borrowing decisions • Security of borrowed funds; • Extent of borrowing for investments and borrowing overall • The nature of the investment; • Risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Commercialisation and the purchase of investment properties

With many Local Authorities facing uncertainty over government funding in recent years, councils have already or are now turning towards commercial activities to increase sources of self-sufficient funding. Bracknell Forest's commercialisation activities are mainly centred around the Commercial Property Investment Strategy ('CPIS') which was approved by the Executive in December 2016, setting out the aim to invest in properties and achieve a beneficial return for the Council.

The core objective of the investment strategy is to generate a long-term revenue income stream for the Council to assist in meeting the budget gap as a result of government funding cuts and other financial pressures.

Discussion with the client and review of documentation provided indicates that a clear and consistent process was adopted and followed in identifying, investigating and presenting relevant investment proposals to various Council internal stakeholders. Within the process, there were a number of possible opportunities where each proposal could be discussed and alternative views could be presented. This indicates there are robust arrangements in place which allow the Council to exercise sufficient governance over key decisions relating to CPIS.

The CPIS programme has now fully invested the approved budget, meaning no further investment proposals are currently being considered. Going forward, half-yearly meetings will be held which will review each of the existing six property portfolios. The half-yearly review meetings help ensure that sufficient arrangements are now in place to ensure formal reporting and transparency takes place. Discussion with the client gave comfort that the Council does recognise the importance of formal reporting and transparency when considering and monitoring the performance of CPIS.

The Council also recognises the importance and reliance placed upon the success of the CPIS in generating a long-term revenue income stream that can be used to fund any budget gap(s) arising from government funding cuts and other financial pressures. Measures identified, such as the use of a voluntary revenue provision in addition to the mandatory revenue provision, demonstrate prudent decision making.

We find the risks identified by the Council to be appropriate and mitigated by the risk control procedures identified in the relevant risk registers. All investments are subject to a full external due diligence process. This includes building condition surveys including all Mechanical & Electrical (M&E), independent RICS valuations and a legal audit as well as officer site inspection and market consideration. Any items considered less than satisfactory are reported. This has led to one accepted bid being withdrawn following this rigorous due diligence process. Given the CPIS programme has now fully invested the approved budget, procurement risks should no longer be a concern to the Council, although it will need to ensure that sufficient risk management processes are in place to ensure its current investment portfolio is effectively managed and potential income generation is maximised.

The Council has ensured and outlined its compliance with relevant legalisation, namely the Local Government Act 2003, CIPFA Prudential Code, MHCLG MRP and Investment Guidance and the CIPFA Treasury Management Code in its recent 2019/20 budget proposal presented to the full Council in February 2019.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to 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 2018/19 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 3 December 2019. 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.

Assessment of Control Environment

Internal financial control

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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. We have, however, made the following observations relating to your overall control environment:

Risk management arrangements

The Council's risk management arrangements are identified as a governance issue to be addressed in the action plan in the Council's 2018/19 Annual Governance Statement. There was no formal internal audit review of the Council's risk management arrangements during 2018/19. Officers recognise that there are weaknesses in arrangements and have commissioned an internal audit consultancy report on risk management in 2019/20 which means that there will be no formal audit opinion on the findings. Through our work we have observed the following which could help improve the risk management arrangements:

- An independent internal audit of the effectiveness of the Council's risk management arrangements.
- Better documentation of the Council's Strategic Risk Register with clear actions and timescales on how risks are managed going forward.
- Reappraisal of the risk appetite to ensure that the Council is operating at a risk level commensurate with that documented for its strategic risks.
- The formalising of a risk register for the People Directorate following the combining of Adults and Children's services.
- Clarity on the role of the Governance and Audit Committee in providing assurance over the effectiveness of the Council's Risk Management arrangements, by understanding and commenting on the effectiveness of the whole process.

We will follow-up on the above as part of our VFM work for 2019/20.

Member declarations

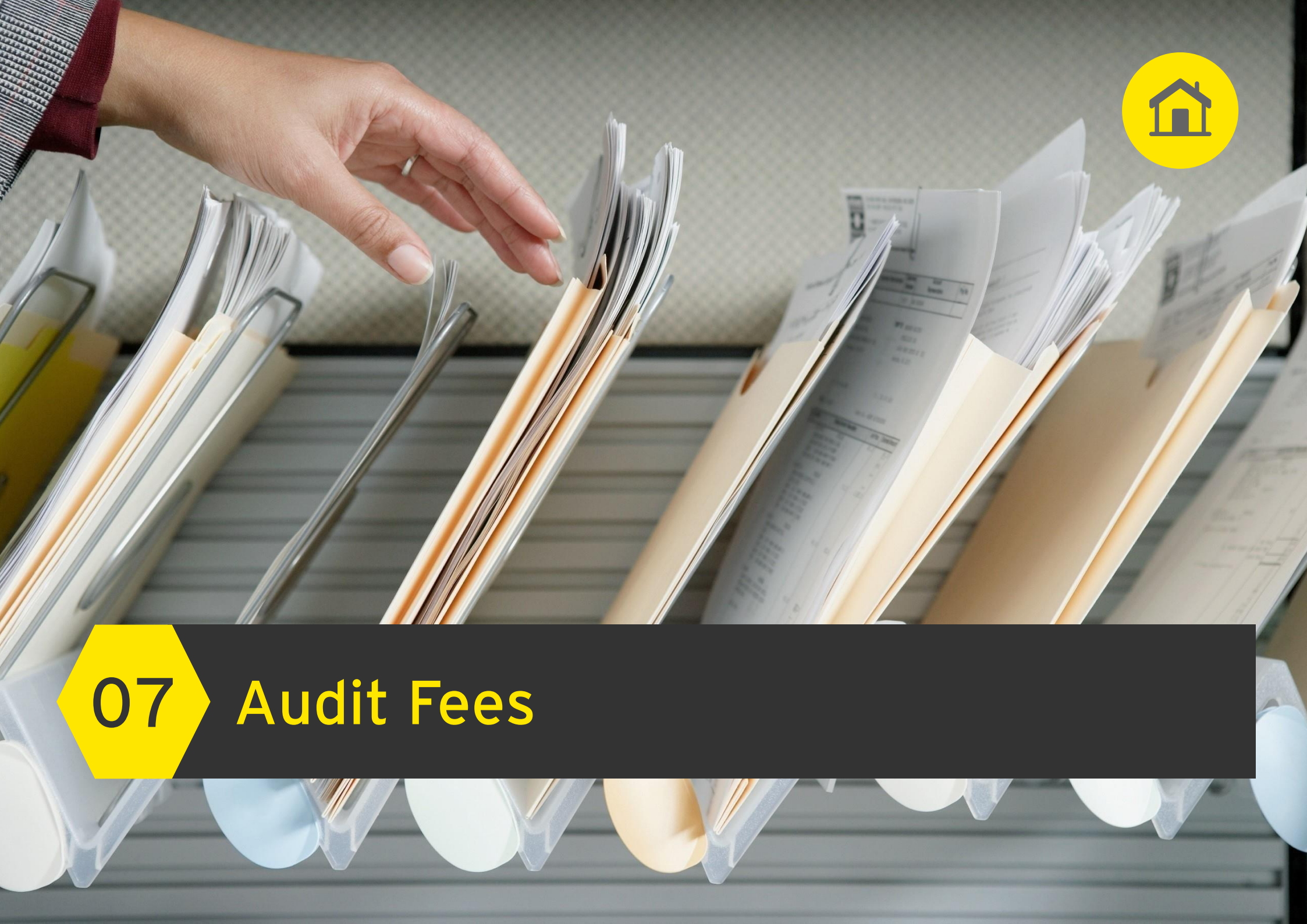
When undertaking our procedures on related party transactions we checked declarations of interest, and we noted that six members had not completed a declaration. Whilst we are satisfied through alternative procedures that there were no transactions requiring disclosure, we would recommend that Members ensure that their declarations are complete and updated for changes. This is an important part of the process for the Council to identify related party transactions and protect itself from the risk of reputational damage.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.
CIPFA guidance on property investment	On 15 November 2019 CIPFA released guidance to advise local authorities on what is expected of them when investing in property.	This guidance should be reviewed to ensure good practices are being adopted, and the Council's activities are consistent with the guidance.



07 Audit Fees

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements in relation to the housing subsidy grant claim. Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Notes 1,2,3 & 4	80,639	80,639	104,726
Non-audit work for Housing subsidy grant claim	£27,033 - Note 5	18,771	Not applicable	20,100

We are not yet in a position to quantify the final costs associated with this work but any variation to the fee will need to be agreed with officers and approved by PSAA. The areas we are proposing varying the fee relate to the following:

Note 1: Value for Money significant risks: We have undertaken additional work in relation to the two significant VFM risks, as discussed above. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

Note 2 – Annual Governance Statement (AGS) review: Our work on the AGS also identified issues which required us to spend more time than planned on reviewing the Council's control environment and its risk management arrangements, as we have reported above.

Note 3: Waste PFI accounting model review: Our work on the assessment of the Waste PFI accounting model required us to spend more time than planned, as reported above.

Note 4: Pensions net liability: Our work on the Council's pension net liability was extended as a result of the McCloud judgement plus the additional time spent on obtaining the IAS 19 assurances from the pension scheme auditor, the additional work required where we did not receive the assurances we required and the auditing of the changes to the financial statements resulting from the pension scheme audit, as reported .

Note 5 – Housing benefit subsidy grant claim: From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed us to act as reporting accountants in relation to the housing subsidy claim.

The fee is based on:

- £18,771 plus VAT for the certification work
- £3,634 for the second set of extended ("40+") testing (as our agreed proposal of 7 September 2018, allowed for one set of 40+ testing)
- £2,314 for each subsequent set of extended testing of which there were two.

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ED None

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