



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Report to those charged with governance

Bracknell Forest Borough
Council

15 September 2006

AUDIT

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Greg McIntosh, who is the engagement director to the Council, telephone 020 7311 6430, email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

Section one

Introduction

Purpose of this document

The Code of Audit Practice (the Code) requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to those charged with governance prior to the publication of the financial statements. In preparing our report the Code requires us to comply with the requirements of ISA (UK & Ireland) 260 'Communication of Audit Matters to Those Charged With Governance' ('ISA 260'), insofar as the matters we are communicating relate to the audit of the financial statements.

This report summarises for the benefit of the Executive of Bracknell Forest Borough Council ('the Council'), the key issues identified during the course of our audit of the financial statements for the year ended 31 March 2006. This report has been prepared for presentation to the Executive on 19 September 2006.

Respective responsibilities of the appointed auditor and the audited body

Accounts and statement on internal control

It is the responsibility of the Council to put into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income for the relevant financial year. The Council is also responsible for preparing and publishing with its financial statements a statement on internal control.

We audit the financial statements of the Council and give our opinion as to whether they present fairly the financial position of the Council and its expenditure and income for the year in question and whether they have been prepared in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice ('the SORP'). We also consider whether the information presented in the statement on internal control is consistent with the financial statements and reflects compliance with CIPFA guidance.

Our proposed audit report on the accounts is presented in Appendix 1 to this report.

Use of resources

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements. Our responsibility is to satisfy ourselves that the Council has put in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to its corporate performance management and financial management arrangements and reporting on these arrangements.

In addition to our value for money conclusion we are required to include within our audit report the results of our audit of those elements of the Corporate Plan for 2005/06 which comprised the Council's best value performance plan (BVPP). We issued our opinion on the 2005/06 BVPP on 10 November 2005.

We have provided you with a draft of the value for money conclusion that we are required to give under the Code of Audit Practice within Appendix 2 to this report, together with our opinion on the 2005/06 BVPP.

Public interest reports

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned and brought to the attention of the public. We did not issue a report in the public interest in 2005/06.

Audit certificate

We are required to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to those charged with governance and to issue a draft opinion on the financial statements. There are no issues that have come to our attention during the course of the audit that would cause us to delay the issue of our certificate of completion of the audit.

Audit status

At the date of issue of this memorandum, our detailed audit work is substantially complete, although there are still some outstanding queries which we are following up. If any adjustments are identified between the date of this report and the signing of the accounts, we will communicate these adjustments directly to the Chair of the Executive.

Use of resources

We are required to be satisfied that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessments we make during the year, such as your self assessment on use of resources. Based upon our work this year we have issued you with an unqualified value for money conclusion and have concluded that you had adequate arrangements in place to secure economy, efficiency and effectiveness in your use of resources for the year ended 31 March 2006.

Introduction

Within our audit plan we outlined the various work streams we use to assess whether you have appropriate arrangements in place to ensure that your resources are deployed effectively. Our overall assessment has been based on your self assessment, our cumulative audit knowledge and specific work undertaken to assess adequacy of arrangements.

Use of Resources assessment

This assessment has taken place for the first time in 2005/06 and provides an analysis of your performance against the five themes published by the Audit Commission. As summarised below:

| Key line of enquiry | Score | How findings have been reported |
|----------------------|-------|---|
| Financial Management | 2 | The work on these three themes was completed during September and October 2005. We have shared the scores with you and overall you have scored a 3. We have provided you with potential actions to improve your score going forward as part of the debrief following this exercise in 2005. |
| Internal Control | 3 | |
| Value for Money | 3 | |
| Financial Standing | 3 | |
| Financial Reporting | 3 | |

The results of this work indicate that you are achieving higher than adequate standards in your use of resources, and arrangements for economy, efficiency and effectiveness.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. During 2005/06, we were asked by the Commission for Social Care Inspection to perform an audit of a sample of social services performance indicators, as part of their inspection work. We reported our findings to both the Commission and you on 7 September 2005.

Section Three

Accounts and Statement on Internal Control

We have completed the audit work on the accounts to deadline and we expect to issue an unqualified audit opinion, following the meeting of the Executive on 19 September 2006. Within this section we draw to your attention the representation letter that we are required by auditing standards to obtain from management. We have also provided you with a summary of the accounts production process and how this can be improved in the future.

Introduction

The table below outlines the seven stage audit process we deployed for our review of your financial statements. The tasks we performed are split between those which are undertaken pre, during and post-accounts production. We have summarised below the tasks which we have performed as part of accounts finalisation:

| Work Performed | Accounts production stage | | |
|--|---------------------------|--------|------|
| | Pre | During | Post |
| 1. Business Understanding: review your operations. | ✓ | ✓ | - |
| 2. Controls: assess the control framework. | ✓ | - | - |
| 3. PBC: issue our prepared by client request. | ✓ | - | - |
| 4. Accounting standards: agree the impact of any new accounting standards. | ✓ | ✓ | - |
| 5. Accounts Production: review the accounts production process. | ✓ | ✓ | ✓ |
| 6. Testing: test and confirm material or significant balances and disclosures. | - | ✓ | - |
| 7. Representations & opinions : seek and provide representations before issuing our opinions. | ✓ | ✓ | ✓ |

We report on the work we performed relating to the pre-accounts production stage as part of our letter to internal audit. Below we focus on the final two tasks that we perform post-accounts production:

Accounts Production

Your accounts production process will be formally assessed as part of our 2006/07 use of resources assessment. As part of the initial feedback on this process we have considered the production process against three criteria:

| Element | Commentary |
|--------------------------------------|--|
| Completeness of draft accounts | We received a set of draft accounts ahead of us commencing the fieldwork element of our audit. All primary statements and notes within these were complete. |
| Quality of supporting working papers | As in previous years, we found the quality of your working papers to be very high. All were available to us during the first week of our audit. |
| Response to audit queries | You dealt with audit queries quickly and efficiently. We hope that for the 2006/07 audit this process can be more streamlined (in other words, make a formal record of any audit queries and rank them in order of priority), so that you can deal promptly with those queries that need more detail. We will discuss this process as part of the debrief session mentioned above. |

As a result of the above we have raised one performance improvement observation, which is not significant, but represents best practice.

Opinions and Representations

As part of the financial statements finalisation process we are required to provide you representations concerning both our independence and ability to act as your auditors. We have provided this within Appendix 5 to this report.

You are also required to provide us with representations on specific matters such as your financial standing, whether the transactions within the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to the Borough Treasurer on 10 September 2006. We have also included a copy of this within Appendix 4.

Section Three

Accounts and Statement on Internal Control (continued)

There were a few minor audit adjustments that have been made to your accounts. These can be summarised as:

| Overall impact | Adjustments identified |
|---|--|
| Changes to the prime financial statements | No material adjustments have been identified. Minor adjustments, totalling £34k in respect of benefits expenditure, and an £87k overstatement of bad debt provision were reported to the Council. These have not been adjusted for, given their low value. |
| Changes to the notes to the accounts | No adjustments were identified. |
| Presentational adjustments | Minor changes were made to the narrative included in the accounts. |

No other adjustments have been identified as part of our audit process.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention prior to issuing these opinions.

Appendix 1a: DRAFT audit report

Opinion on the financial statements

We have audited the financial statements of Bracknell Forest Borough Council for the year ended 31 March 2006, which comprise the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Consolidated Revenue Account, the Collection Fund, the Housing Revenue Account and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to Bracknell Forest Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Bracknell Forest Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bracknell Forest Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005.

We review whether the statement on internal control reflects compliance with CIPFA's Guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Appendix 1b: DRAFT value for money conclusion

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Bracknell Forest Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 10 November 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

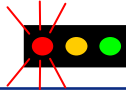
We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 2: Accounts performance improvement observations

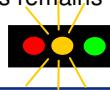
This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take. No high priority performance improvements have been made. We will follow up the two performance improvements as detailed below as part of our 2006/07 accounts audit.

Priority rating for performance improvement observations raised

Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

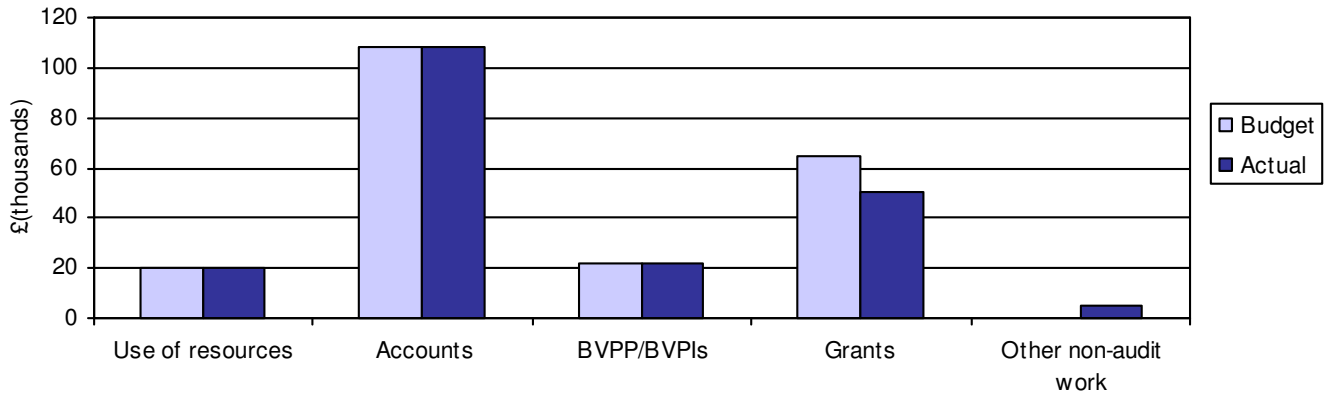


| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|---|--------------|--|---|-------------------------------------|
| 1 | ● (three) | <p>Finalisation of Housing Benefits claim</p> <p>Due to a change in system part way through 2005/06, the housing and council tax benefit claim form was not finalised until after the accounts had been closed. This led to differences totalling £276k between what is recorded on the claim, and what was recorded in the accounts.</p> <p>Going forward, the Council should ensure that the housing and council tax benefit claim is finalised ahead of the accounts being closed.</p> | <p>The difference must be seen in the context of the HB claim which in 2005/06 was £21.2 million. We agree that it would be preferable to complete the HB claim before the accounts are closed. This is not always possible and it is inevitable that estimates will have to be used, based on the best possible information available at the time.</p> | <p>Chief Accountant Ongoing</p> |

Appendix 3: Audit fee

This section summarises our overall arrangements for delivering your external audit in 2005/06. To make sure that there is openness between us and the Council about the extent of our fee relationship with you, we have summarised below the out-turn against the 2005/06 agreed external audit fee:

External audit fee for 2005/06



The use of resources fee includes our work performed on your self assessment. The analysis above shows that our audit fee has remained in line with your audit and inspection plan, with the exception of 'other non-audit work'. We were asked by the Commission for Social Care Inspection to undertake an audit of a number of Social Services performance indicators, as part of their inspection work. Fees for this work totalled £5k.

A small reduction was achieved in the grant claims fees as a result of changes in the certification requirements.

Appendix 4: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the financial statements for Bracknell Forest Borough Council for the year ended 31 March 2006.

We confirm that all material related party transactions relevant to the Council have been disclosed and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position disclosed in the financial statements for the year ended 31 March 2006.

We confirm that:

- We acknowledge our responsibility for the design and implementation of systems of internal control to prevent and detect fraud;
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- We have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial statements; and
- We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

We confirm that the measurement methods, including related assumptions, used to determine fair values comply with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005 and have been consistently applied. We also confirm that the disclosures relating to fair values are complete and appropriate and in accordance with the local government financial reporting framework.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements.
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was approved by the Executive on 19 September 2006.

Yours faithfully

Chris Herbert

September 2006

Appendix 5: ISA 260 Declaration of independence and objectivity

Declaration of Independence and Objectivity 2005/06

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence;
- The related safeguards that are in place; and
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the audit committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG’s ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Bracknell Forest Borough Council for the financial year ended 31 March 2006, we confirm that there were no relationships between KPMG LLP and the Council, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement partner and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

The audit fee for the financial year is disclosed in Appendix 3. We carried out one additional review, at the request of the Commission for Social Care Inspection. The fee for this was £5k.