

# Brent Council

## 2006/07 Report to those charged with governance



Members of the Audit Committee  
Brent Council  
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10 December 2007

Ladies and Gentlemen

**2006/07 Report to those charged with governance**

We are pleased to present our report on the results of our audit work for 2006/07. We presented a draft version of this letter to the previous Committee, on 19 September. We hope that the information contained in this report provides a useful source of reference for members.

We would like to express our thanks to the management and staff at Brent Council for the assistance given to us during the course of our work.

Yours faithfully

PricewaterhouseCoopers LLP

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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive summary

## **The purpose of this report**

This report summarises the results of our audit work from our 2006/07 audit of Brent Council's accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to the Performance and Finance Select Committee in March 2006. We have issued a number of reports during the audit year, detailing the findings from our work and, where appropriate, making recommendations for improvement. A list of these reports is included in Appendix A.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

## **Financial Statements**

We have completed our audit of the Council's 2006/07 financial statements and issued an unqualified audit opinion on 28 September.

The accounts were prepared to a good standard and generally supported by adequate working papers. However, during the course of our audit we have identified a number of accounting issues. The key points are summarised below.

## *Closedown procedures*

The accounts were approved by the Council on a timely basis and within the statutory deadline of 30 June. The Council has continued to work on the operation of its closedown procedures, particularly through a programme of training for Departments, which we attended. During the course of our work we identified some issues relating to the operation of closedown procedures at a Directorate level, although these were isolated.

## *Systems issues*

As in previous years, the 2006/07 financial statements were generated from three ledger systems: Oracle, Unity and Epicor. As part of our audit we identified some enhancements which could be made to the operation and effectiveness of IT controls relating to each platform.

A key area examined was in relation to the management of systems changes, which we considered in the context of the upgrade of the Oracle system this year. This is an important area for the Council to further investigate with view to the substantial changes that it is planning to its ledger structure, which is expected to involve the migration to one platform (Oracle).

## *Debt recording – Abacus system*

The Council encountered some systems issues relating to the recording of residential and nursing care debts on its Abacus system. The system was duplicating invoices and there have been other interface problems overstating debtors in the accounts. Officers undertook investigatory work to resolve the issue which resulted in adjustments of £2.6m being made to the accounts during the audit. There was no impact on balances because this was met by the provision, which has been reduced accordingly. Officers are working on a solution with the aim of preventing this issue from re-occurring.

#### *Adoption of new accounting guidance*

Councils are required to reflect a number of changes to their accounts presentation this year resulting from changes to the Statement of Recommended Practice (SORP). We identified some areas, such as the inclusion of additional accounting policies, where disclosures could be enhanced. Officers agreed to reflect these changes in the revised accounts.

The Council will need to consider its preparatory arrangements for additional developments in accounting requirements that are anticipated over the short to medium term. A key change on the horizon is the required adoption of International Financial Reporting Standards (IFRS), which could have a more substantial and complex effect in areas such as PFI accounting, leases and segmental reporting. We have held initial discussions with the Director of Finance and Corporate Resources in relation to this.

#### *Other matters*

Within our report we have also commented on areas where there is scope to improve the operation of internal controls, (including improvements to the operation of the budgetary control system in the Children and Families directorate), which we have reflected in the main body of this report.

#### **Use of Resources**

Under the Audit Commission Code of Practice we are required to give an opinion on the Council's use of resources. This opinion is arrived at following an assessment of the Council against a set of criteria issued by the Audit Commission. We are pleased to confirm that at the time of writing this report we propose to issue an unqualified opinion on Use of Resources.

We have summarised the results of our work on Data Quality, Human Resources workshops and our review of Local Area Agreements within this report.

# Financial statements

## Accounts

We have completed the audit of the Council's accounts in line with the Code of Audit Practice and the relevant Auditing Standards. We issued an unqualified audit opinion on the financial statements on 28 September 2007.

The accounts were approved by the General Purposes Committee on 26 June 2007, within the 30 June deadline for approval. This meant that we received the first draft of the accounts and pension fund accounts prior to the start of the audit. We considered the first draft of the accounts to be of a good standard and were generally supported by adequate working papers. This helped to ensure that the audit progressed in line with the timetable agreed with officers.

## Accounting Issues

### *Debt recording – Abacus system*

The Council encountered some systems issues relating to the recording of residential and nursing care debts on its Abacus system. The system was duplicating invoices and there have been other interface problems overstating debtors in the accounts.

Officers recognised this issue and included a provision of £4m in the first draft of the accounts, which principally covered residential and nursing care balances totalling £4.7m. Following investigatory work conducted by officers, residential and nursing debtors were reduced from £4.7m to £2.1m following elimination of duplicated invoices. There was no impact on balances because this was met by the provision, which has been reduced accordingly. Based

on our review of the adjustments, we are satisfied that the Council's accounts are not materially misstated.

Officers are continuing work to analyse the profile of residential and nursing care debt, and are working on a solution with the aim of preventing this issue from re-occurring.

### **Recommendation**

*Officers should continue to investigate the reasons for the issues with the Abacus systems which resulted in misstatement of debtor balances, and ensure that suitable actions are developed to ensure that accounting and recoverability risks are addressed.*

### *Compliance with the Statement of Recommended Practice (SORP) 2006*

This year councils were required to make a number of presentational changes to their financial statements in response to the new 2006 SORP requirements. Key changes included the introduction of an Income and Expenditure Account instead of a Consolidated Revenue Account, the removal of the Asset Management Revenue Account, the introduction of a Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses (STRGL).

We reviewed the accounting disclosures against the updated guidance and were pleased to note that, in the majority of areas, the necessary presentational changes were appropriately reflected. From our disclosures

review we identified some areas, such as the inclusion of additional accounting policies, where disclosures could be enhanced. Officers reflected these changes in the revised accounts, which we signed.

The challenges encountered when responding to changes in the guidance this year suggest that the Council should focus early on future changes in reporting requirements.

The introduction of International Financial Reporting Standards (IFRS) could, for example, result in some specific changes to accounting practice across the Council. We have held initial discussions with the Director of Finance and Corporate Resources regarding the Council's preparatory arrangements and have outlined some of the key changes in further detail at Appendix D.

#### **Recommendation**

*Senior Finance Officers should consider how best to ensure that the Council is adequately prepared for further forthcoming changes in accounting and reporting requirements, particularly in respect of IFRS.*

#### **Revaluation of Housing Assets**

The accounts reflect a significant (£237m) downward revaluation of council dwellings. This has primarily resulted from the Council moving from the adjustment factor used in previous years to provide a measure of the difference between market rented and social rented property at a regional level, to the "preferred" factor recommended by the Department of Communities and Local Government for authorities in London.

We are comfortable with the appropriateness of the change in the Council's estimation basis. We requested that additional detail is provided on this matter in the Explanatory Foreword in the revised accounts.

#### **Accounting for Single Status**

Single Status is a nationally agreed initiative to ensure that local government employees are paid the same for doing the same work or doing comparable jobs and that work of equal value is rewarded equally.

The Council has yet to provide any specific funding as at 31 March 2007 in respect of single status costs. The primary basis for not providing is that the Council considers its exposure to backdated claims to be immaterial and experience to date reinforces this position with no claims having been received. The Council has agreed to include a contingent liability in the accounts in recognition that it may still receive claims for back-pay relating to the Single Status agreement although, as stated in the accounts, this is not intended to be regarded as an acceptance of liability in any particular future case

The Council recognises the need to budget for future expenditure relating to equal pay assimilation from 1 April 2007 and this is represented within its Medium Term Financial Strategy.

#### **Unadjusted misstatements**

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. As in previous years, adjustments identified during the audit have been corrected by officers.

#### **Systems of internal control**

##### **Reporting internal control weaknesses**

ISA 260 requires us to report to you any material weaknesses in the accounting and internal control systems identified during the audit. During our audit of this year's financial statements we have not identified any material weaknesses in the Council's internal control systems.

We have, however, identified some internal control matters during the course of our work which are outlined in this section. Our findings are based on the work undertaken and should not be considered to be an exhaustive list of all control weaknesses. We have not sought to repeat observations made by Internal Audit in this section of our report.

##### **IT control issues**

As in previous years, the financial statements were generated from three ledger systems: Oracle, Unity and Epicor. As part of our audit we identified

some enhancements which could be made to the operation and effectiveness of IT controls relating to each of the three systems.

We will prepare a separate report to outline the detailed points raised from our 2006/07 controls work, together with agreed management responses, and will issue to the Director of Finance and Corporate Resources in due course.

Suggested improvements will include the documentation of backup and change procedures and enhancements to systems access controls. There is also scope for making improvements to the process for managing systems changes. For example, there was no documented project plan, test plan, training plan or user testing prior to the Oracle system upgrade in the Housing directorate.

The Council is considering making some significant changes to its systems in future, which involve the planned migration to one ledger platform (Oracle). As with any systems change, this process will need to be managed carefully as there are a range of risks, covering areas such as data migration and systems training, which will need to be considered. Management should therefore consider the comments we have raised in relation to the management of systems changes as part of this process.

#### **Recommendation**

*We recommend that the Council puts policies and procedures in place to ensure that the planned migration to one ledger platform is achieved as efficiently and effectively as possible. Management should consider and implement the findings from our work on IT controls.*

#### **Accounts closedown**

The Council has continued to work on the operation of its closedown procedures by conducting a programme of closedown training for Departments (which we attended) and introducing a new system for recording internal balances during the year.

Whilst this has contributed to an overall improvement in the closedown

process, as part of our audit we identified some isolated issues relating to the accounting for transactions in the Children and Families directorate within the correct financial year. This included 11 instances where expenditure had not been correctly accrued into the 2006/07 accounts. However, neither the total value of these items (£40,000), nor the total value of estimated potential misstatement, were considered to be material.

#### **Recommendation**

*To ensure that expenditure items are properly accrued, Finance staff, particularly those within the Children and Families directorate, should be reminded of the need to accrue appropriately for all expenditure items at year end. The Council should consider reinforcing these messages as part of the existing programme of training on closing the accounts.*

#### **Budget monitoring in Children and Families Department**

In 2005/06, we identified issues surrounding the schools' budgeting processes and closedown procedures. Additional issues were identified in this directorate during the course of the 2006/07 audit, relating to the budget monitoring process, including:

- Within parts of the service (Community Education and Core) only limited budget monitoring occurred prior to December 2006. Although financial monitoring statements were prepared until this point, there was no consideration of actual outturn against forecast or budget, which meant that limited analysis of budget variances at a local level occurred in practice;
- We noted that the budget monitoring process subsequent to this date was insufficiently robust with monitoring forms being partially completed and limited review by senior officers; and
- There was limited evidence of central monitoring and review of returns from schools, including bank reconciliations.

We were able to determine through our audit work that the matter does not appear to be material to the accounts. However, such weaknesses present



an increased risk to the Council of unexpected variances arising, including overspends against budget.

#### **Recommendation**

*We recommend that the Council considers a comprehensive review of the operation of key management controls, including budget monitoring, within the Children and Families directorate.*

#### **Debt management**

The Council has made good progress in addressing the matters identified in previous years in relation to debt recovery, including the need to ensure regular review of debts for potential write off or prioritisation for recovery. Officers have been working actively, for example, on the development of a debt management policy which they hope will be introduced during the current calendar year.

During the course of our work we considered a debt of £2.3m with Metropolitan Housing Trust (MHT), which was under dispute. It was unclear whether amounts would be recovered in full and, as a result, the Council included a provision of £0.4m, together with credit items (such as withholding of payments due) of £0.8m against the balance.

The Director of Finance and Corporate resources assessed that amounts deemed irrecoverable from MHT were fully provided for and we were also satisfied that the Council accounted appropriately for relevant items, in all material respects. However, given the size (and age) of the debt which is in dispute, we have raised the following recommendation:

#### **Recommendation**

*We recommend that the Council should continue to review the level of outstanding debt with Metropolitan Housing Trust (MHT) and, as part of its recovery procedures, seek to establish agreement with MHT on balances due. The Council should regularly assess the level of provision attached to any outstanding debt, as events progress.*

Our audit testing also revealed an isolated issue on an old debt (for £31,000) which had been raised on a legacy system, where no records were available but the debt had still been earmarked for recovery.

#### **Recommendation**

*As part of its efforts to develop a debt management policy, management should ensure that the requirements to review debts for recoverability or write off are disseminated to all appropriate officers.*

#### **PCT Balances**

We have monitored the Council's discussions with Brent Teaching Primary Care Trust (PCT) to determine the liability for the costs associated with a number of Adults and Social Care cases. The amounts due from the PCT have substantially reduced, from £7.8m as at 31 March 2006 to approximately £2.6m as at 31 March 2007. This reflects substantial progress which has been made between the two parties.

In its accounts the Council has also included a contingent liability in respect of potential liabilities which may arise, but are disputed. The Council does not accept the legal basis of many of these cases and it cannot properly assess responsibility in individual cases without a proper assessment process having been undertaken. These uncertainties have resulted in the Council being unable to quantify any liability and the Council will deal with claims as they arise. However, both parties are working actively to determine who is responsible for remaining cases, where agreement has not been reached. The Council is also discussing the development of a dispute resolution procedure with the PCT. This represents a positive response in managing the way in which the liability for individual cases is determined between the two parties.

The Director of Finance and Corporate Resources has assessed that, at this stage, the Council's total potential financial exposure is covered by working balances. We are also satisfied that the Council has accounted prudently for these items in all material respects.

### *Internal Audit*

We have maintained a good working relationship with the Council's internal audit service during 2006/07.

We were able to place some reliance on the work of internal audit this year. However, as in recent years, our planned approach involved more detailed testing at a Service Unit level. This approach was discussed and agreed with officers last year and was partly intended to assist with managing resourcing pressures in the internal audit function.

We are grateful to the internal audit staff for their co-operation during the audit.

### **Other matters**

#### *Electors' Questions*

We received one Electors question during the financial year 2006/07. We have reported back to the elector and there are no matters to bring to the attention of members.

#### *Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption*

We have not identified any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption. The Council's dedicated fraud investigations team continues to investigate a number of incidents in the borough, and are closely involved in the ongoing pursuit of cases that have been brought to our attention during the year.

#### *The Legality of Financial Transactions*

There are no significant matters to bring to members' attention.

# Use of Resources

## Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA:
  - Financial Reporting
  - Financial Management
  - Financial Standing
  - Internal Control
  - Value for Money
- Mandatory Data Quality Review work
- Review of the Statement on Internal control
- Audit of the Best Value Performance Plan
- Local Area Agreements review
- HR workshops

## Use of Resources Conclusion

Our conclusion under the Code of Audit Practice is reached by assessing the Council's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken as part of the CPA process, our Local Government data quality work, and other information that came to our attention during the course of the audit.

We intend to issue an unqualified use of resources opinion.

## Data Quality work

We completed our assessment of the Council's arrangements for data quality based on a prescribed methodology (issued by the Audit Commission), which involved consideration of management arrangements in place as well as spot checks of individual Best Value Performance Indicators (BVPIs). We reported the results of our work to officers in November 2006.

With regards to management arrangements, we concluded that the Council was performing well in the majority of areas but identified scope for the Council to develop its corporate policies and procedures for data quality and address various systems weaknesses which were identified. We recognised that the Council was in the process of developing its controls, including for example, by introducing a new performance management system.

Our spot checks involved detailed work on eight indicators. We assessed seven as being fairly stated and one (BVPI 184a, which relates to decent

homes) to have been misstated. We noted scope for improvement in data collection systems for this BVPI, as the systems did not allow the Council to track when homes fell into non-decent standard or when responsive repairs resulted in assets meeting the standard. It was acknowledged that plans were in place to introduce new software and a stock condition survey for future years.

## **Targeted work**

### *Local Area Agreements (LAA) review*

In 2006/07 we completed a review of the effectiveness of management and financial arrangements in place to support reporting against the Council's LAA targets. As part of this audit we carried out a number of interviews with Council and partner staff, as well as reviewing a sample of claim forms and supporting information.

We found that the Council generally has strong systems in place to monitor and report performance, although there are some risks around information received from partners and this area would benefit from additional guidance. We recommended that Performance Plus would be a useful tool to enhance control measures, particularly around audit trails but it was not being used at the time of the audit.

Financial management arrangements, while robust, have required a significant input of management time due to the number of changes and amendments to claims made over the last year. The Council will need to maintain its current level of scrutiny over budgets and project expenditure to ensure that controls remain effective.

Our report was issued in August 2007 and we are currently awaiting a management response.

### *Human Resource workshops*

The Council has undertaken a significant programme of change in transforming its Human Resource (HR) functions. In summary this has involved transitioning from a department-based approach to a more corporate system. This has involved the establishment of a central 'PeopleCentre' to cover organisation wide functions such as responding to payroll enquiries

and senior, strategic HR roles within each department to consider longer term issues.

We carried out a series of workshops to assess a 'snapshot' of reactions to the process of change, including identifying improvement areas and providing a baseline against which further communications and change efforts could be measured. The workshops were half day events with representatives from three groups: staff within the new PeopleCentre, HR managers and officers from within services. In total, a sample of 17 officers were involved.

The summary findings showed a number of positive points, including:

- The need for change within HR was recognised;
- There was a general consensus that the approach the Council has taken is the right one; and
- The appointment of strategic HR managers was a good step and had restored some credibility between HR and departments.

However, there were also several areas showing a large consensus supporting the need for improvement. The most significant were:

- Poor communications and provision of clarity regarding roles and responsibility among staff within the PeopleCentre, between the PeopleCentre and HR, and between HR and rest of the organisation;
- Poor/Low visibility of leadership and direction; and
- Low confidence in the ability to meet deadlines and deliver benefits.

We submitted the report to the HR Strategic Advisors group which is taking forward the recommendations under a wider 'Peer Review' of HR services being conducted by the Improvement and Development Agency (IDeA).

### **2006/07 Use of Resources assessment**

In addition to our conclusion on the Council's financial arrangements we have, as part of the Audit Commission's ongoing CPA process, assessed how well the Council manages and uses its resources. This is the third year in which we have carried out this assessment. The questions on which the judgments are based are broad and strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those

arrangements. The assessment is based on assessment criteria developed by the Audit Commission. Our work to support our assessment comprises the following elements:

- Financial Reporting
- Financial Management
- Financial Standing
- Internal Control
- Value for Money

Last year, we assessed the Council as scoring 3 out of 4 against each of the five criteria. This year we have assessed the Council as scoring a strong 3. The individual judgments against the Key Lines of Enquiry are as follows:

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
<b>Overall</b>	<b>3 out of 4</b>

The 2005/06 scores were a three in each category. In 2006/07, we have scored the Council as a 4 in relation to Financial Standing, which is largely due to the success of its risk-based approach to financial expenditure, as well as its commitment to achieving a target level of working balances. This approach has enabled the Council to absorb significant unforeseen expenditure pressures without any impact on service delivery.

The provisional Use of Resources scores indicate consistency compared with the previous year. It should be noted that there have been improvements in

the Internal control score, resulting from the effectiveness of the Audit and Investigation Service's innovative approach to IT forensic work.

We will include the final Use of Resources scores in the Joint Audit and Inspection letter, which is produced by the Council's Relationship Manager early in 2008. As in previous years, we will also issue a separate Use of Resources summary report setting out recommendations for further improvement.

### Statement on Internal Control

Local Authorities are required to produce a Statement on Internal Control (SIC) which is consistent with guidance issued by CIPFA / SOLACE. The SIC was included in the financial statements.

We reviewed the SIC to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### Best Value Performance Plan

Our work on the 2006/07 Best Value Performance Plan (BVPP), issued by the Council in June 2006, resulted in the issuing of an unqualified opinion in December 2006. This concluded that Brent Council has prepared and published its plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government. Our report included no statutory recommendations.

Work on the 2007/08 BVPP forms part of the 2007/08 audit, to be undertaken by the Audit Commission as the incoming auditors.

# Audit plans and fee update

## Audit Plan 2006/07

We issued our Audit Plan for 2006/07 and presented it to members of the Performance and Finance Select Committee in March 2006.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2006/07. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

## Audit fees update for 2006/07

Our fees charged were in line with our proposals:

	2006/07 Outturn fee	2006/07 Fee proposal
Accounts	£290,000	£290,000
Value for Money	£130,000	£130,000
<b>Total</b>	<b>£420,000</b>	<b>£420,000</b>

The fees set out above exclude VAT and the certification of grant claims. The fees relating to the certification of grant claims are directly determined by the costs incurred. Last year, our fees for this work were £125,000.

The fees above also exclude amounts charged by the Audit Commission's Relationship Manager in respect of statutory inspection under Section 10 of the Local Government Act 1999. The Council has disclosed a figure of £86,000 in its accounts in respect of this work.

# Appendix A: Audit reports issued in relation to the 2006/07 audit year

The following audit reports have already been issued in relation to the 2006/07 audit year:

- 2006/07 Audit and Inspection Plan;
- Report on the 2006/07 Best Value Performance Plan;
- Data Quality report;
- HR Workshop Transformation Review report;
- Audit opinion in relation to the 2006/07 Accounts; and
- Auditor's conclusion on whether there are proper arrangements for securing economy, efficiency and effectiveness in the Use of Resources.

Reports to follow include:

- 2006/07 Use of Resources Assessment;
- 2006/07 Joint Audit and Inspection Letter; and
- 2006/07 Grant Issues report.

# Appendix B: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

These code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of "adequate" for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

Code Criteria	Description	Associated KLoE	2005/06 CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ Stage 1	3	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate



Code Criteria	Description	Associated KLoE	2005/06 CPA Score	Use of Resources Conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate

# Appendix C: Summary of recommendations in this report

Page	Recommendation	Management Response	Target Implementation Date
6	Officers should continue to investigate the reasons for the issues with the Abacus systems which resulted in misstatement of debtor balances, and ensure that suitable actions are developed to ensure that accounting risks are addressed.	The Council has utilised external support to investigate the issues and recommend corrective action. Many of these have already been actioned with a full action plan now being produced.	October 2007
7	The Council should consider how best to ensure that it is adequately prepared for further forthcoming changes in accounting guidance, particularly in respect of IFRS.	The Council is aware of the significant changes planned. It has already sought external support to advise on the requirements for both the 2007/08 and 2008/09 accounts.	Support in place by October 2007
8	We recommend that the Council puts policies and procedures in place to ensure that the planned migration to one ledger platform is achieved as efficiently and effectively as possible. Officers should consider and implement the findings from our work on IT controls.	The Council already has an external advisor on the migration. An adequately resourced team is being put together and recognised project management techniques for migration projects will be utilised. Phased implementation is planned to help minimise risk and a high level project board will oversee the migration.	Implementation of full system April 2009.
8	To ensure that expenditure items are properly accrued, Finance staff, particularly those within the Children and Families directorate, should be reminded of the need to accrue appropriately for all expenditure items at year end. The Council should consider reinforcing these messages as part of the existing programme of training on closing the accounts.	This is current practice but guidance and training will be strengthened and monitored closely. We will involve internal audit in this process.	By February 2008
9	We recommend that the Council considers a comprehensive review of the operation of key management controls, including budget monitoring, within the Children and Families directorate.	An internal audit review of budget monitoring is currently being carried out across the Council with particular emphasis on C&F. This will allow a detailed action plan to be constructed.	October 2007
10	We recommend that the Council should continue to review the level of	The Council has sought further counsel's opinion which	By 31 March 2008

Page	Recommendation	Management Response	Target Implementation Date
	outstanding debt with Metropolitan Housing Trust (MHT) and, as part of its recovery procedures, seek to establish agreement with MHT on balances due. The Council should regularly assess the level of provision attached to any outstanding debt, as events progress.	supports its position in relation to the debt. The Council is in on-going discussions with Metropolitan Housing Trust aimed at a long term resolution of the issues that gave rise to the debt.	
11	As part of its efforts to develop a debt management policy, officers should ensure that the requirements to review debt for recoverability or write off are disseminated to all appropriate officers.	This process is in place but monitoring will be strengthened as debt statistics and trends are now collected centrally from across the Council.	After second quarter 2007/08

# Appendix D: Future developments

Issue	Relevance to Brent Council
<p><b>Transition to International Financial Reporting Standards (IFRS)</b></p>	<p>As part of the 2007 budget, HM Treasury confirmed that “in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice ... from the first year of the CSR period [government] accounts will be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector.”</p> <p>Many government bodies will be required to report under EU-endorsed IFRSs for the year ended 31 March 2009 (including the restatement of 2007/08 comparatives). This includes central government departments, NHS trusts, PCTs and NHS foundation trusts. Whilst the extension of these requirements to individual local authority accounts is dependent on the SORP process and may not take place until the year ending 31 March 2010, local government will be required to complete whole of government accounts returns on an IFRS basis for the year ending 31 March 2009.</p> <p>Although the details of how and when the new requirements will specifically apply to local authorities have yet to be confirmed by CIPFA, it is likely that the Council will need to prepare an auditable IFRS opening balance sheet at 1 April 2008 and IFRS compliant financial information for all accounting periods thereafter. In addition, management will need to provide the comparative information that is required in future IFRS accounts. The impact of transition to IFRS is broad and is more than just technical accounting adjustments, with potential ramifications throughout the Council’s activities. The Council should have to expect impacts upon its business operations, organisational structure, management information systems and geographical spread.</p> <p>It is important that management is able to control, monitor and address the impacts of the transition to IFRS and we understand that management is already considering this development.</p>
<p><b>Accounting for revaluations</b></p>	<p>A revaluation reserve will be introduced in 2007/08, replacing the Fixed Asset Restatement Account. This reserve will be built up from individual balances for each asset, with movements in valuations managed at an asset by asset basis. One of the key principles for the reserve will be that an individual asset should not have a negative revaluation balance, no matter how much the reserve might be in surplus overall. As such, when the revaluation reserve is introduced, any impairment in value below</p>

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	<p>depreciated historical cost will be a charge to Income and Expenditure, even if it were attributable to a general change in prices.</p> <p>Many authorities have been delaying preparations for the new Reserve pending the Joint Committee's confirmation, and they will now be required to carry out a significant amount of work to a very tight timetable in order to ensure that the required accounting information will be available for the 2007/08 accounts. In particular, management will need to be able to track the historic cost of an asset and the associated depreciation and also any changes in valuation and the related change in depreciation for that asset.</p>

