

Brent Council

2002/04 Audit Service Plan

June 2003

%

)

'

Contents

Page

I.	Introduction	1
II.	Changes to audit planning cycle	3
III.	The Code of Audit Practice	2
IV.	Overview of our audit approach	5
V.	The key business and audit risks	7
VI.	Audit timetable and products	24
VII.	Communication of audit matters to those charged with governance	26
VIII.	Audit budget and fees	30
	Appendix A – Audit team	33
	Appendix B – Other engagement information	34

Statement of Responsibilities of Auditors and of Audited Bodies

In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and 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.

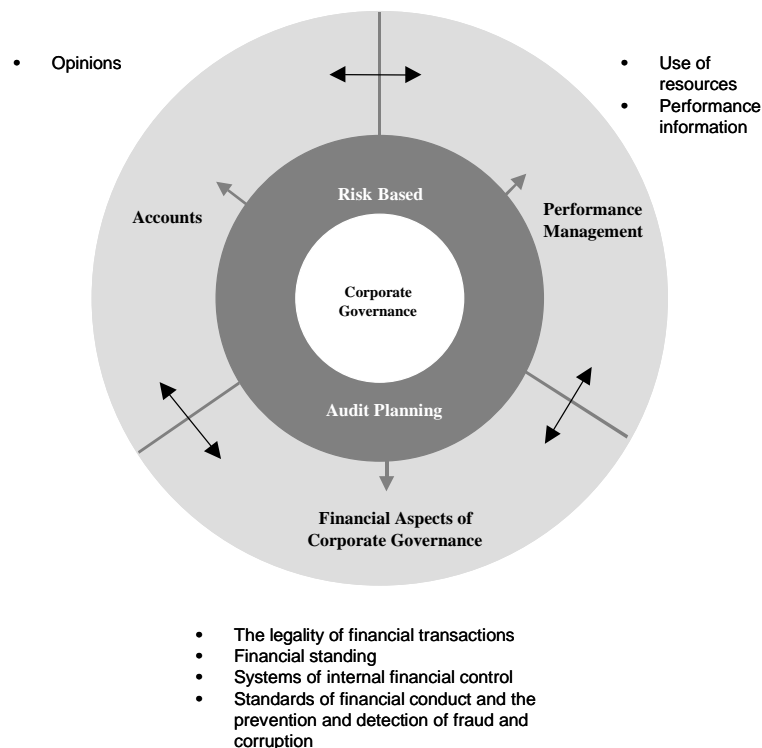
I. Introduction

Our Audited Body Service Plan has been prepared to inform the officers and members of Brent Council (the 'Council') about our responsibilities as your external auditors and how we plan to discharge them. Every local authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Council, and is discharged by managing the Council's affairs in order to:

- secure economy, efficiency and effectiveness in the use of resources;
- safeguard assets against unauthorised use or disposal;
- maintain proper accounting records;
- ensure the reliability of financial information used within the organisation or for external publication;
- ensure that the organisation has an appropriate system of internal financial control;
- ensure that proper arrangements have been implemented to guarantee the proper conduct of its financial affairs;
- conduct its financial affairs and put in place proper arrangements to ensure that its financial standing is soundly based; and
- ensure that the organisation prepares and publishes specified performance information and an annual Best Value Performance Plan.

Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ('the Code').

The Code of Audit Practice



Accounts:

It is the responsibility of the Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

Governance:

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- (a) the legality of transactions that might have significant financial consequences;
- (b) the financial standing of the audited body;
- (c) systems of internal financial control; and
- (d) standards of financial conduct, and the prevention and detection of fraud and corruption.

Performance:

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to review and report on:

- (a) the arrangements that the Council has put in place to prepare and publish specified performance information; and
- (b) the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

II. Changes to the audit planning cycle

Change in the audit year

The Audit Commission has changed the audit year to match with the financial year of health and local government bodies. This has resulted in an initial 17 month period, running from November 2002 – March 2004. This audit service plan covers this 17 month period; that is, the two audit years 2002/03 and 2003/04. The work that is covered as part of this period will not all be completed within the period, for example the accounts work for the 2003/04 financial year will be completed in Autumn 2004. The work that will be covered as part of this audit period is as follows:

Audit work (two years 2002-04)	2002/03 financial year	2003/04 financial year
Specified audit work:		
Audit: accounts and systems	6	6
Audit: financial aspects or corporate governance	6	6
Audit: best value performance plan	-	6
Audit: best value performance indicators	-	6
Variable work:		
Audit: local performance audit work (risk determined)	6	6
Other work:		
Grant claim certification work	6	6
National fraud initiative 2002	6	x

Review of audit plan

In the dynamic environment in which you operate, the risks that the Council is facing may change over the 17 month period. In order to fulfil our statutory responsibilities in relation to the Code, we will review the risks identified within this audit service plan in March 2003 (following the development of the Council's improvement plan and the audit and inspection programmes) and in August 2003 to ensure that they are still appropriate. If necessary we will:

- Amend the audit service plan;
- Amend the local targeted work to address any newly identified risks, and
- Amend the fee to reflect any changes to the audit plan

We will, of course, discuss and agree any changes with you.

Relationship Managers

The Audit Commission is intending to introduce a Relationship Manager at each local government audit. The role of the Relationship Manager is still being developed but is intended to co-ordinate the work of both your appointed auditor and inspector and represent the Audit Commission in external liaison on matters relating to the audited body. We are working with the Audit Commission to ensure that this role is developed in such a way as to ensure that we are able to fulfil our statutory responsibilities as your appointed auditor and to ensure that the audited bodies benefit from the additional role. Jacqueline Barry-Purssell was appointed Relationship Manager for Brent in February 2003. We have already commenced working alongside her as required by the Audit Commission and to ensure that the approach to performance auditing is properly joined up.

Impact of the Comprehensive Performance Assessment (CPA)

As part of the action planning for CPA, we will be liaising with the relevant inspectors and the relationship manager to agree a combined audit and inspection programme for the 2003/04 financial year. This audit service plan will be used as part of this process.

III. Overview of our audit approach

Your business is becoming increasingly complex. The Council is pursuing an ambitious corporate strategy against a background of continuing financial pressures. Constitutional changes are still relatively recent and the Council has quickly had to focus, inter alia on corporate governance, making the most of the best value and inspection regimes, partnership working and providing efficient and effective services to an increasingly demanding customer base.

Against this background, our audit approach places more emphasis on the way in which you manage the range of key risks affecting your business – whilst still focusing on the impact of these risks on our Code objectives.

Our approach recognises that, in running the business, your management team does many things to get comfort that the information systems are robust, generating reliable data and information for use in managing the business, meeting statutory duties and for reporting to stakeholders. We concentrate our attention on assessing how effectively management have gained this comfort.

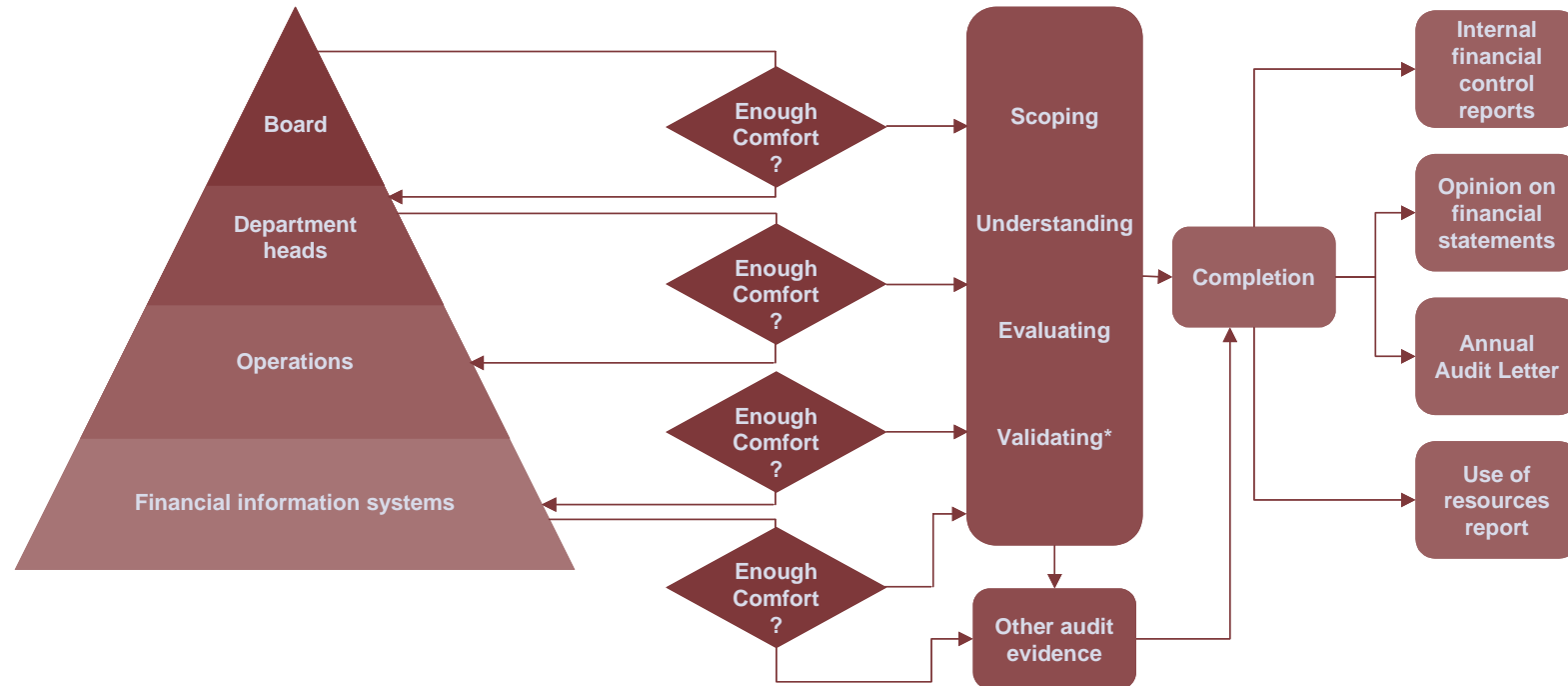
This involves stepping back from transaction processing, to focus instead on the activities that drive your business. Our approach mirrors the way in which you manage the business, which means we align our work to your management structure and your business activities, rather than financial statement balances.

How does this work in practice?

Our approach is intentionally simple. We start at the top of the business, with key members of the management team, and work our way down through the organisation – meeting with the managers responsible for operational and compliance risks as well as financial management. At each level, we assess how management get comfort that business risks are effectively controlled and that management information reflects what is really happening. Our audit comfort comes from a cycle of:

- **Scoping** your risks and exposures – *what do you need to get comfort on?*
- **Understanding** your business, how it is managed and how its results are monitored – *how do you get comfort?*
- **Evaluating** whether your approach is appropriate – *are you entitled to that comfort?*
- **Validating** our understanding by gathering audit evidence – *can we share in that comfort?*

The approach is shown diagrammatically as follows:



The cycle is iterative. At each stage, we pool and share our understanding amongst the team and with you and decide how much more we need to do. We carry out detailed testing on financial transactions and targeted audit work on governance and performance only when this is necessary to fill any gaps in the necessary comfort.

IV. The key business and audit risks

To determine the nature and extent of the core audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one or more of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is the responsibility of the Council to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. **This exercise is only performed to the extent required to prepare an Audited Body Service Plan that properly tailors the nature and conduct of audit work to the circumstances of the Council. It is not designed to identify all risks affecting the operations of the Council or all internal control weaknesses.**

The following tables summarise the results of our risk assessment in terms of the significant financial and operational risks facing the Council and our planned response.

Corporate Services Directorate

Risks	Our response	Accounts/ Governance/ Performance
<p>Corporate Strategy</p> <p>The new corporate strategy is ambitious and includes developments in a number of areas that were considered lower priority in the previous strategy including a much greater focus on regeneration, the environment and, in particular the condition of pavements, leisure and culture.</p> <p>Improvement Planning following CPA</p> <p>The Council will be required to respond to the overall CPA assessment by developing an improvement plan to address identified weaknesses and secure improvements in services to users and the community. This improvement plan will inform our risk-based audit plan.</p>	<ul style="list-style-type: none"> • Review robustness of risk assessment and budget forecasts for 2003/04 budget. • Consider specific review of Council’s enhanced performance management /monitoring arrangements • The Council’s CPA performance was assessed as fair. A programme of work has been agreed with the Relationship Manager. HR, a review of the Asset Management Plan, Sport and Leisure and Waste Management have been selected for inspection by the Audit Commission in 2002/03. We will feed into this work where requested and in particular, will support the Social Services Inspectorate in monitoring progress against the financial action points arising from the Joint Review. • We will update last year’s scored auditor judgments on corporate governance indicators 	<p>Financial Standing/Performance</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>E-Government</p> <p>The Council is making progress towards the 2005 target, which is now part of the best value performance framework (BVPI 157), of providing electronically 100% of those transactions suited to an electronic median. This requires a step change in the rate at which services and transactions are offered in electronic forms, including transactions between councils and citizens, and between councils and businesses.</p> <p>The Council is developing CRM system as pathfinder with partial govt funding. The objective is for information and advice to be 24 hours a day and 365 days a year.</p> <p>The One Stop Shop service is being re-launched with extended hours via Council Contact Centre – impact of new HB in-house service is expected to reduce volume of business for enquiries but partially offset by closure of EDS enquiry service.</p>	<ul style="list-style-type: none"> • The Council is using specialist support to help deploy technology, use of the internet and service availability. In addition, there will be a strong link between one-stop shops and IT • We will consider the need for an e-government specialist to discuss development and direction of the strategy 	<p>Performance</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Retirement benefits</p> <p>In 2003/04 it is likely that the Council will have to change significantly the way in which it accounts for the costs of retirement benefits when it implements Financial Reporting Standard 17. In simple terms, the Council will be required to recognise the overall net surplus or deficit on the scheme in its balance sheet from 31 March 2004. The re-stated 31 March 2002 valuation shows the Council's scheme to be only 72% funded, so FRS 17 could have a significant impact upon the balance sheet.</p> <p>In 2002/03, the Council will also be required to disclose the annual movement in the net asset or liability analysed between:</p> <ul style="list-style-type: none"> • Current service cost • Interest cost • Expected return on assets • Actuarial gains and losses • Past service costs 	<ul style="list-style-type: none"> • Discuss with the Director of Finance at the planning stage and review disclosures and implications as part of the final accounts audit • In particular, we will review the Council's plan to recover the deficit • Review confirmation of the FRS 17 disclosure figures provided by the Council's actuary, Bacon & Woodrowe 	<p>Accounts</p>

Risks	Our response	Accounts/ Governance/ Performance
<ul style="list-style-type: none"> • Settlements and curtailments • From 2003/04, the Council will be required to recognise the net asset or liability in its balance sheet, and charge the above components of the annual movement to the revenue account or statement of total movement in reserves. 		

Risks	Our response	Accounts/ Governance/ Performance
<p>Statement on Internal Financial Control</p> <p>From 2002/03, the Council is required to prepare a Statement on Internal Financial Control for inclusion in the Annual Accounts. This statement must contain:</p> <ul style="list-style-type: none"> • Acknowledgement of responsibility for IFC; • Indication of the level of assurance that a system of IFC can provide; • Brief description of the main features of the system of IFC; • Brief description of the role of internal audit and its management and reporting arrangements; • Details of other reviews informing the assessment of the effectiveness of IFC during the year; and • Concise explanation of any significant weaknesses and management action to address them. 	<ul style="list-style-type: none"> • Guidance to be provided to officers as soon as it is available and progress made by the Council in achieving compliance to be monitored throughout the audit 	<p>Governance</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Accounts and Audit Regulations 2003</p> <p>Although currently in draft, these regulations are likely to require the following:</p> <p>From 2002/03:</p> <ul style="list-style-type: none"> • The accounts must be signed by the Chairman of the Council/Chair of committee approving the accounts; and • Remuneration of named senior officers must be disclosed in the financial statements. <p>From 2003/04:</p> <ul style="list-style-type: none"> • The financial statements must be approved by 31 August; • The Council has corporate responsibility for financial management and accounting control systems; • The Council is required to undertake an annual review of the effectiveness of systems of internal control; and • Internal audit are required to follow best practice i.e. the CIPFA Code 	<ul style="list-style-type: none"> • We are working with the Director of Finance and his staff in order to bring the final accounts audit forward and to be in a position to sign our audit opinion earlier than in previous years • We will liaise with the Director of Finance on remuneration disclosure requirements before the start of our final accounts audit 	<p>Accounts</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Rent Convergence</p> <p>ODPM policy is to move local authority rents towards comparable rents charged by Registered Social Landlords (RSLs) over a 10 year period commencing in April 2002. This places caps on the extent to which authorities can increase their housing rents, and is supported through changes to the HRA rent rebate subsidy calculations.</p>	<ul style="list-style-type: none"> • The Council has delegated its housing management function to Brent Housing Partnerships Ltd (an Arms Length Management Organisation) from 1 October 2002. Whilst the Council still owns the housing stock and has retained overall responsibility for the HRA and Housing Subsidy completion, the working arrangements with the ALMO are in their infancy and the SLA has still to be agreed. • PwC has been appointed auditors to the ALMO (albeit a different audit team) and will liaise with the incoming auditors at an early stage in order to determine the degree to which we can rely on their work in discharging our HRA and Housing Subsidy obligations • Responsibility for rent-setting is retained by the Council, but the ALMO is responsible for rent incentives. We will review the Council's and the ALMO's policies for moving towards comparable RSL rents 	<p>Accounts/Governance</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Implementing Supporting People</p> <p>By April 2003, the Council must have completed the disaggregation support service costs from HRA rents under the transitional housing benefit arrangements.</p> <p>The Council should also have put in place appropriate arrangements to identify and claim Supporting People grant funding.</p>	<ul style="list-style-type: none"> • Approach to be discussed with the Council and the ALMO 	<p>Accounts</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Planning for implementation of Prudential Code for capital expenditure and investment</p> <p>The prudential system is being developed to replace part IV of the Local Government and Housing Act 1989 which is the basis for the current system of capital controls over local government. The latest step towards defining the prudential system was the publication of the Local Government Bill.</p> <p>A key objective of the new system is to allow authorities to determine for themselves how best to utilise their resources to meet their objectives. The prudential framework will be formed by the statutory framework in conjunction with a Prudential Code of Practice, which is currently being developed by CIPFA and by CIPFA's Treasury Management in the Public Services.</p> <p>It appears likely that the new framework will have effect from 2004/05. The Council needs to plan for its implementation.</p>	<ul style="list-style-type: none"> • Discuss with the Director of Finance and monitor developments as the Council moves to achieve compliance. 	<p>Accounts</p>

Social Services Directorate

Risks	Our response	Accounts/ Governance/ Performance
<p>Budgetary Sensitivity</p> <p>Significant overspend, giving rise to the risk of massaging the final outturn to reduce the impact of the bad news</p> <p>Financial Forecasting</p> <p>Failure to prepare robust forecasts together with weak management information could lead to accruals being mis-stated and/or to the failure to bring items into account</p>	<ul style="list-style-type: none"> • Reliance on link accountants (Brent Financial Services, not social Services) in monitoring performance and in performing basic checks and balances. • There is also a role for Internal Audit in undertaking an enhanced level of testing (particularly old people's services and children's services). We will liaise with internal audit to ensure that the tests that we would expect them to perform on our behalf are included in their work programme • Consider targeted work in this area. One member of our team could usefully spend 1-2 weeks performing focused walk-through testing and challenging explanations to key variance 	<p>Accounts</p> <p>Accounts</p> <p>Accounts</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Ledger Systems</p> <p>All business units are not on the EPICORE general ledger. However, staff are not generally trained in financial reporting and the inability to link activity to financial data could lead to mis-statement of expenditure</p>	<ul style="list-style-type: none"> • Follow up of our social services finance report (November 2002) to ensure that recommendations are being implemented as set out in the action plan. • Regular liaison with senior social services staff to understand key departmental actions being undertaken • Follow up of our agency social workers report (Jan 2003) later in the year to ensure that new proposals and working arrangements are adding value • Work is to be undertaken by our IT specialists (GRMS) on the move towards a single corporation of Social Services Epicore general ledger 	<p>Accounts/Performance</p> <p>Accounts/Performance</p> <p>Performance</p>

Environmental Services Directorate

Risks	Our response	Accounts/ Governance/ Performance
<p>Waste Management</p> <p>Waste disposal will be increasing due to increased tonnage and rise in landfill taxes. The Council's recycling volumes have increased but percentage increases are lower due to volume increase. The Council has set a long term target of 25% which it is unlikely to meet. The Council's Overview Committee is considering waste management strategy and will make recommendations to consider developing a fully operating civic amenity site.</p> <p>Wembley Stadium Development</p> <p>The ongoing development is key to the regeneration of the Wembley area. The Council will be heavily involved in the planning and building control aspects of the development, and in ensuring that the resulting regeneration is managed effectively. Single Regeneration Budget schemes in this area are ongoing and the Council will need to manage all its financial and operational interactions with the development carefully, due to its high profile and significance for local residents.</p>	<ul style="list-style-type: none"> • Review medium term financial strategy to cope with increased waste. In practice we will achieve this through liaising with the Relationship Manager. She has advised there is to be an Audit Commission inspection using a diagnostic of performance and prospects for improvement, focusing on recycling, street cleanliness and refuse collection. • Review outcome of Overview Committee's deliberations and comment on their findings in our Annual Audit Letter • We will continue to monitor developments, and comment in our Annual Audit Letter. • We will complete our audit of the SRB schemes concerned with the Wembley development in accordance with our instructions from the Audit Commission 	<p>Performance</p> <p>Performance / Governance / Accounts</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Ongoing projects – Northwick Park, Kingsbury Pool Whitewater and Dollis Hill House</p> <p>Planning permission is nearing completion for the Northwick Park development, but the Mayor of London has rejected permission for the retail part of the scheme. The Council will need to ensure that the potential developer is still committed and resourced to complete this project.</p> <p>Legal action from the successor firm for Whitewater is continuing and being contested by the Council.</p> <p>It is planned to restore Dollis House and run it as a `culture café`.</p>	<ul style="list-style-type: none"> We will continue to monitor all developments on these projects and report our findings in the Annual Audit Letter 	<p>Governance / Performance</p>

Housing Directorate

Risks	Our response	Accounts/ Governance/ Performance
<p>HRA Business Planning Process</p> <p>New arrangements for the Housing Revenue Account will require longer term business planning and greater transparency for option appraisal. As considered within the Corporate Services Directorate, the Council has been successful in setting up ALMO, with additional funding. A Separate strategy is required for significant investment and redevelopment of the South Kilburn estates.</p> <p>Stonebridge HAT</p> <p>There have been uncertainties and delays in the project to complete refurbishment and establish viable arrangements for longer term management. Council Officers are continuing to develop workable long term strategies.</p>	<ul style="list-style-type: none"> We will liase with Housing officers on a quarterly basis to consider progress on these issues and report our findings in the Annual Audit Letter. As above, discussed as part of ongoing liaison 	<p>Peformance</p> <p>Governance</p>
<p>Supported Housing</p> <p>These services are currently funded through a variety of different regimes. From April 2003, the Council are required to set up a new regime to deliver support services to some of the most vulnerable individuals in the borough. It is anticipated that this will have a budget of between £4-5 million per annum.</p>	<ul style="list-style-type: none"> As above, discussed as part of ongoing liaison 	<p>Governance</p>

Education, Arts & Libraries Directorate

Risks	Our response	Accounts/ Governance/ Performance
<p>Ofsted Inspection</p> <p>The Council was inspected in January 2003. Ofsted will report on the LEA's improvement since the last inspection, the quality of current services and the capacity to improve. The results will impact on the Council's CPA, relations with schools and will absorb senior management time, with a risk of delayed progress on other key issues facing the Directorate</p> <p>Best Value in Schools</p> <p>The Council needs to ensure that central government funding for front line schools is directed and spent appropriately. Current Best Value procedures do not extend to schools at present.</p> <p>Early Years</p> <p>The Department for Education Standards consider the Council's resource levels for quality assurance, information and training and advice are too low. Council Officers acknowledge that progress on strategic planning, consistency across the Borough and avoidance of duplication with social services nursery provision is required.</p>	<ul style="list-style-type: none"> • We will liaise with Ofsted, the Audit Commission and Council Officers to consider the conclusions of the inspection and the implications arising • Council Officers are working towards a performance framework for schools. Internal Audit are planning to include an element of performance measurement in their work programmes for schools visits. • We will monitor developments and comment on them in our Annual Audit Letter 	<p>Performance</p> <p>Performance</p> <p>Performance</p>

Risks	Our response	Accounts/ Governance/ Performance
<p>Wembley High School Expansion</p> <p>The School is being expanded from 800 to 1050 places in Years 7 to 11 to meet increased demand. The project is expected to be completed in Summer of 2000.</p>	<ul style="list-style-type: none"> We will discuss progress against budget with Council officers and consider our approach to year end valuations with the Director of Finance and his team. 	<p>Performance / Accounts</p>

V. Audit timetable and products

During the period we will liaise closely with Council's Directors and managers, to provide an efficient and effective audit process that adds value to the Council. We will provide you with a number of audit products, as documented below. We will also work with the Relationship Manager and relevant inspectors to produce a joint audit and inspection plan for the 2003/04 financial year.

Key deliverable	Topics covered	Planned Date
Report on management controls	<ul style="list-style-type: none"> • Management control issues and recommendations; • Governance issues and recommendations; • Other issues arising from our interim accounts audit; and • Follow up of previous control issues. 	November 2003
Opinion on Best Value Performance Plan	<ul style="list-style-type: none"> • Opinion on the Plan's compliance with statutory requirements; and • Recommendations for areas of non-compliance. 	
CPA Improvement Planning	<ul style="list-style-type: none"> • Work required by the Audit Commission in relation to CPA Improvement Planning • Update on scored auditor judgments on corporate governance indicators 	
Opinion on financial statements	<ul style="list-style-type: none"> • Opinion on whether the financial statements present fairly the results for the year and the financial position at year end. 	November 2003

Key deliverable	Topics covered	Planned Date
Use of Resources reports	<ul style="list-style-type: none"> Results of audit work and recommendations for improvement. 	
Annual Audit Letter	<ul style="list-style-type: none"> Summarising the results of our audit work and highlighting issues for members' and senior officers' attention 	November 2003

The achievement of the above timetable is dependent on our receiving timely and accurate information from officers. Failure to provide this will place meeting the targets at risk and may lead to additional costs.

VI. Communication of audit matters to those charged with governance

Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' is applicable to the 2002/03 financial year onwards. This SAS requires auditors to plan with those charged with governance the form and timing of communications to them. We have assumed that some of the responsibilities of 'those charged with governance' are to be met by the Performance & Finance Select Committee. In addition, the General Purposes Committee that receives the Council's Statement of Accounts will assume the balance of responsibilities.

We intend to continue to communicate with the full Council in the following way:

- We will communicate to you any relationships that may bear as our independence and objectivity of the audit engagement partner and audit staff, and how we will deal with these issues;
- We will communicate key matters in relation to the planning of our audit, and
- We will communicate the key findings from the audit.

We reserve the right to communicate directly with the Council on any audit matters that we consider to be of sufficient importance.

Independence and objectivity

We are required by the Code to:

- carry out our work with independence and objectivity;
- exercise our professional judgment and act independently of both the Commission and the Council;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgment in the conduct of the audit.

In addition, the Code specifies that we should not carry out work for the Council, which does not relate directly to the discharge of our functions as auditors if it would impair our independence or might give rise to a reasonable perception that our independence could be impaired. If we are satisfied that performance of such additional work will not impair our independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £25,000 or 20% of the annual audit fee), then we may undertake such work. If the value of the work in total in any financial year would exceed the *de minimis* amount, we must obtain approval from the Commission before agreeing to carry out the work

The Commission's *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which we must also comply with. These are as follows:

- any staff involved on the audit who wish to engage in political activity should obtain prior approval from the Engagement Leader;
- we will only bid for work within an your area in direct competition with the your own staff if we have discussed and agreed a local protocol you;
- we are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence; and
- we are expected to comply with the Commission's policy for both the Engagement Leader and the second in command (Senior Manager/Manager) to be changed on each audit at least once every seven years (to be changed to every five years from 2003/04).

We have made enquiries of all PricewaterhouseCoopers teams providing services to the Council and of those responsible in the UK Firm for compliance matters. We are aware of the following relationships that, in our professional judgment, may reasonably be thought to bear on our independence and the objectivity of our audit engagement leader and staff which represent matters that have occurred during the financial year on which we are to report up to the date of this audit strategy:

Services provided to the Council

In addition to our audit under the Code, the Firm has also undertaken other work for the Council. In each case, we have carefully considered the nature and implications of the work and are satisfied that no conflict of interest exists.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for an audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Conclusion

We confirm that in our professional judgment, as at the date of this Audit Service Plan, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Planning of our audit

This audit service plan details those areas which we consider to be high risk and includes our response to those risks. It also explains where we are intending to rely upon internal controls and the work of internal audit, if applicable.

Our financial statements audit is carried out in accordance with our Accounts Code objective, which requires us to comply with auditing standards. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The assessment of what is material is a matter of professional judgment and includes consideration of both the amount and nature of investments.

Findings from the audit

We will communicate to the Corporate Management Team, the following issues arising from our audit:

- Expected moderations to the audit report;
- Unadjusted misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;
- Material weaknesses in the accounting and internal control systems identified as part of the audit;
- Our views about the qualitative aspects of the Council's accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

This will result in you receiving additional information in previous years and we would welcome the opportunity to discuss with you the format and any additional comments that you would like to receive.

VII. Audit budget and fees

The Audit Commission have provided indicative audit and inspection fee levels for Authorities for the 17 month period, depending on the level of expenditure, CPA category, and potential risk. Based on your expenditure, which includes HRA and Pension Fund, for 2002/03, the indicative fee for audit and inspection for the Council is:

	£
High risk	1,040,000
Medium risk	800,000
Low risk	560,000

Due to a CPA score of “Fair” and a deteriorating working balances position, we would categorise the Council as being above the medium risk mark. We have therefore agreed an audit fee £740,000 to which the Inspection fee needs to be added, giving a final fee under the Audit Commission’s formula. The Inspection fee has to be set by the Relationship Manager. Our fee is broken down as follows:

	2002/04 £	2001/02 £
Accounts and Governance	520,000	215,000
Performance	220,000	125,000*
Total	740,000	340,000

The fee is payable in quarterly instalments and excludes VAT. Fees for grant claims, challenge work and reviewing initiatives such as proposed PFI arrangements are specifically excluded from the above fee analysis.

* 2001/02 fees are for 12 months and the performance fee includes £20,000 additional Audit Commission contribution towards CPA

PwC have been appointed as external auditors of the Brent Housing Partnership ALMO. We expect to place reliance on the work of the separate audit team when auditing the Council's Housing Revenue account. The fee for the audit of the HRA has therefore been reduced, but not by the full extent of the ALMO audit fee, in recognition of the risk element associated with the first year of the ALMO and need to audit its additional Companies Act compliance and disclosure items.

Our fee for performance work includes the following

- Audit of your 2003/04 BVPP;
- Updating of auditor scored judgments on Corporate Governance indicators;
- The following studies:
 - Accommodation
 - Specific studies in social services studies as agreed with the Director of Social Services
 - Risk Management and Procurement
 - Revenues, Benefits and IT security/E-government
 - PAYE review (deferred until early 2004, after which the new payroll system should be operational)
 - Pension Fund quick overview

- Follow up of previous work

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- That we are able to place reliance, as planned, upon the work of internal audit;
- That we are able to draw comfort from the management controls within the authority.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

As stated previously, if as a result of our review of the Council's risks, we amend our audit plan, we will agree a variation.

Appendix A – Audit team

The senior members of the audit team will be:

Audit Team	Responsibilities
Appointed auditor – Simon Sharp *	Statutory auditor responsible for independently delivering the audit in accordance with the Code of Audit Practice, including agreeing audit strategy, quality of outputs, presenting management letter, signing opinions. Also responsible for liaison with the Chief Executive and Members.
Engagement senior manager – Simon Davis	Senior Manager on the assignment responsible for overall control and liaison of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the audit service plan and audit letter.
Audit manager: accounts/governance – Ian Clarke *	Will manage our accounts work, including the audit of the statement of accounts, financial systems, performance indicators and fraud and corruption.
Audit Manager: performance – Bola Shoderu	Responsible for co-ordinating the performance audit programme including preparing and presenting reports and the BVPP audit.

*indicates part of the 2001/02 audit team

Appendix B – Other engagement information

The Audit Commission appoint us as auditors to Brent Council and the terms of our appointment are governed by:

- The Code of Audit Practice;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

1) Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks of and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and Brent Council and PwC (in each case including our respective partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.

The exclusion of liability in the paragraph above shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective partners, employees, agents or servants.

2) Access to audit working papers

We may be required to give access to our audit working papers for regulatory purposes or because of other statutory obligations. Typically, in the case of a local government or body, this would be to the Audit Commission for quality assurance purposes.

3) Quality arrangements

It is our desire to provide you at all times with a high quality service to meet your needs. 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 any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Rodger Hughes, Assurance and Business Advisory Services leader for the UK, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we are able to ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

4) Events arising between signature of accounts and their publication

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and the their publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

©© 2003 PricewaterhouseCoopers LLP. All rights reserved.

"PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity."