

Brent Council

2004/05 Joint Audit and Inspection Letter - Final



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Ladies and Gentlemen,

Joint Audit and Inspection Letter 2004/05

We are pleased to present our Joint Audit and Inspection Letter for 2004/05. We hope that the information contained in this report provides a useful source of reference for Members. The Executive and the Performance and Finance Select Committee will consider this Letter on 16th and 18th January 2006 respectively.

Yours faithfully

PricewaterhouseCoopers LLP

Jacqueline Barry-Purssell
Audit Commission Relationship Manager

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

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are 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 audit letters are prepared in the context of this statement and in accordance with the Code.

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. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.

Introduction, Background and Key Messages

The purpose of this Letter

We write to you each year, on completion of audit and inspection activity, to summarise the more important issues that we wish to bring to your attention.

Joint Audit and Inspection Letter

The joint reporting of audit and inspection work in this format reflects the steps that the Audit Commission has taken to integrate audit and inspection regimes, whilst recognising and maintaining their separate statutory responsibilities. The Relationship Manager and Appointed Auditor have worked together to develop this joint letter.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- The Government Office

We share information and seek to provide 'joined up' regulation to the

Council.

Our audit work during the year was performed in accordance with the plan that we presented to the Performance and Finance Select Committee in April 2004, and which was subsequently updated in March 2005. We issued a number of reports during the audit year detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

Key messages

This audit letter contains a number of key messages for the Council set out under the Code requirements, summarised as follows.

Financial standing

The Council has experienced some success in pursuing a strategy of reserve replenishment since 1 April 2003, at which time balances stood at just £0.1m. During 2004/05, the Council consolidated its financial position, with general fund reserves increasing from £4.7m to £10.2m. The estimated year end position in 2005/06 is currently £7.2m. Although this represents a decrease on the prior year position, this is partly attributable to one-off items. Also, the balance exceeds the Council's target range of £4.1m- £7.0m.

The Council will need to continue to monitor a range of acknowledged current and medium term pressures, which include: a recent £0.9m downward

adjustment to the Council's Revenue Support Grant, anticipated disadvantageous settlements in future years, schools' capacity issues and a potentially significant funding gap on South Kilburn NDC. Current pressures have been accounted for within the 2005/06 budget, reflecting a prudent approach.

On Brent's Pension Fund, there are various strategies in place to address a £174m deficit over a 25 year period, including an planned increase in employer's contributions by 4.5% in stages over the next three years. Pension fund financial risks should be captured within the corporate risk register. Members should also continue to monitor the situation and be prepared to take further steps if circumstances warrant it.

Accounts

We issued an unqualified opinion on the Council's 2004/05 accounts on 31 October 2005. We will issue our completion certificate for the audit upon the resolution of an objection raised by a local government elector.

The 2004/05 draft accounts were of a good quality and prepared within the statutory timetable. A number of adjustments were discussed and agreed with management during the audit, and these were reflected in the final, audited set of accounts.

There is scope for developing a more efficient, systems-based audit, although this is dependant on improvements that can be made by the Council to linkages between the three existing ledger platforms (Oracle, Unity and Epicor).

Next year, the deadlines for both the approval and audit of accounts are being accelerated by Central Government to 30 June and 30 September respectively. This will present an additional challenge for officers and auditors alike and discussions are in progress to ensure that this is managed.

Performance Management

We performed a number of targeted reviews, in 2004/05. These covered insurance claims handling, the Council's Section 31 Framework Agreement and Housing Benefits performance enablers. The findings from these reviews are included in the Performance Management section of this Letter.

The Audit Commission carried out two reviews – Human Resources and

Community Safety.

Inspection

Brent scored a 3 on direction of travel having been judged as improving well by the Audit Commission.

Direction of Travel

Brent is performing well and Council services are improving in line with priorities, including education, housing, recycling, street cleaning and social care. Overall satisfaction with the Council is increasing and more than 75 per cent of performance indicators have improved since 2002/03. Effective partnership working has led to major regeneration projects within the Borough, for example Wembley and South Kilburn. The Council works well with partners to tackle issues such as crime. However, some services are showing less improvement, notably waste management. The Council recognises its diverse communities and in response has improved the services it offers such as older people's services and helping people find work. Overall, the Council is delivering good value for money. The Council has robust plans in place for further improvement and a good track record of delivery. Council capacity has increased, for example, through improved procurement practices and staff development, although further improvement is needed to deliver effective human resource arrangements. Brent is well placed to continue to deliver sustained improvement in services that matter to local people.

The Council is having a corporate assessment inspection in January 2006 that will result in a published scored report.

Future challenges

It will be important for the Council to continue to drive value for money throughout the organisation and deliver the Gershon agenda. We completed an initial assessment of the Council's strategy to achieve Gershon savings during the year, and will keep this under review in 2005/06.

The Council produced an interim accommodation strategy covering the next 6-8 years pending development of a new state-of-the art civic centre in Wembley. Our role in the project will be to review and comment upon

principal reports prepared for the Executive and maintaining regular contact with officers in the lead in to the business case preparation process.

The scale of development at the South Kilburn NDC will present a number of challenges, including financial risks noted above. We will maintain a watching brief to review the progress made in this scheme as part of our 2005/06 audit, and consider the potential impact of issues raised.

The environment in which the Council is operating continues to grow in complexity. In particular, there is an increasing focus and reliance on partners and partnership working for the delivery of key services – and the associated risks that this brings. The Council needs to develop and maintain constructive working relationships with its partners to ensure that it continues to deliver high quality services.

We will discuss the issues contained within this Letter with the Performance and Finance Select Committee on 18 January 2006.

Accounts and Governance

We comment on the following key areas in this section:

- Audit of the 2004/05 accounts;
- Matters arising from the final accounts audit;
- Future Accounting Considerations;
- Financial Standing;
- Systems of Internal Control;
- E-Government;
- Electors' Questions;
- Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption;
- The Legality of Transactions; and
- Use of Resources Judgments.

Audit of the 2004/05 accounts

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 12 July 2005.

We issued an unqualified opinion on the Council's accounts on 31 October 2005.

We received the first draft of the accounts and pension fund accounts prior to the start of the audit. These were of a high standard and were generally supported by sufficient working papers. This helped to ensure that the audit progressed in line with the timetable agreed with officers.

As in previous years, our audit approach was largely substantive – a planned approach to testing at service units having been agreed with key finance staff and Internal Audit. Scope exists to make the audit a more efficient, systems-based process; however this is constrained by a current lack of integration between the existing three ledger platforms (Unity, Oracle and Epicor). The Council is currently considering its options to develop its systems, although this is not expected to result in any significant developments in 2005/06.

The earlier accounts closure timetable required considerable effort from the finance teams at the Council (both the central team and those in the directorates). We would like to thank these teams for the assistance provided during the audit of the financial statements.

Matters arising from the final accounts audit

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. At Brent this is generally the Performance and Finance Select

Committee, although responsibility is more formally vested in a General Purpose Committee. We agreed with officers to issue a Report on the audit of the financial statements to the General Purposes Committee on 27 October and to incorporate key messages from that report in this Letter.

A number of technical matters were reported in our report on the audit of the financial statements. This included a summary of the main adjustments made to the accounts during the audit, including:

- Corrections to the balance sheet treatment of accumulated depreciation, following revaluation (£31.7m relating to Council Dwellings and £28.6m relating to General Fund Land and Buildings);
- Reclassification of £24m premia on debt redemption from long term debtors to reserves; and
- Adjustments affecting revenue balances, which had a net impact of £0.1m. Although these were not material, adjustments were made.

With the introduction of new financial reporting standards we will expect to work closely with the Council to determine the correct accounting treatment for more innovative transactions as they can have unexpected implications for the accounts. During 2005/06, for example, accounting for the following will require careful consideration:

- Accounting for premia on premature redemption of debt. The Council currently spreads the £24million cost of these items over a number of years. This is in line with CIPFA's Statement of Recommended Practice for local authority accounting, although this may change as Financial Reporting Standard 26 is adopted;
- The Department of Work and Pensions has clarified the situation where a benefit claim is received against a full council tax liability and on the face of it a single person discount could apply. In such cases, authorities should take follow up action, either applying the discount where appropriate or otherwise being able to justify not having done so. We are

in the process of conducting work on the Council's subsidy claim to consider this issue, which did not impact on the 2004/05 accounts; and

- Alongside these local accounting changes, there have been significant developments in the accounting profession. These include the continued convergence of financial reporting standards across the public sector, together with adoption of some international accounting standards. The Prudential Code has introduced greater freedom for local government, which enable the Council to set and monitor its own borrowing limits.

We will continue to discuss the implications for Brent of such accounting changes with the Director of Finance and Corporate Resources.

Future Accounting Considerations

Early Closing

In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.

The Council managed to bring the closedown process forward by a month in 2004/05. In 2005/06 the closure process will need to come forward by another month. This will mean that the accounts will require approval by 30 June 2006 and publication by 30 September 2006.

The preparation of financial statements within this timetable will present a challenge for the finance team, particularly in relation to the collation of schools' financial information. Meeting the early closure deadlines will require a significant change in the way that the financial statements are produced. This will include a greater use of estimates and other techniques.

We have started to discuss the preparatory arrangements with relevant officers to ensure that suitable arrangements are in place to achieve the

deadline. We will consider the any additional steps that need to be taken when planning for our 2005/06 financial statements audit.

Group Accounts

The 2004 Statement of Recommended Practice contains substantial revisions relating to its requirements for group accounts, designed to provide a fuller picture of the totality of a Council's economic interests and results. The Council will need to consider in the light of relevant guidance whether disclosure of related entities' financial information will be required in its 2005/06 financial statements. If so, this will necessitate preparatory work by finance staff in the forthcoming months.

Financial Standing

In this section we consider the Council's financial standing in relation to the position on the general fund position, Housing Revenue Account, schools balances, capital programme, and income collection. Pensions fund issues are considered in a separate section in this Letter.

General fund spending and balances

The Council has pursued a strategy of reserve replenishment since 31 March 2003, when balances stood at £0.1m. During 2004/05, the Council consolidated its reserve balances, increasing its general fund reserves to £10.2m, from £4.7m in 2003/04.

The Director of Finance and Corporate Resources and Lead Member for Resources preside over a series of working groups and bodies whose purpose is to ensure that the services remain within budget and any that overspends are underpinned by a credible strategy for reserve replenishment.

The estimated 2005/06 year end reserves position is currently £7.2m. Although this would represent a decrease on prior year balances, it exceeds the Council's target range of £4.1m- £7.0m. The Council will need to monitor this position closely whilst delivering against a range of new priorities. The Council has been prudent in accounting for the following pressures within its budget:

- Central Financing Issues - Recent updates to the Local Government Finance Settlement, including amendments to the 2002 mid-year population estimate, will result in estimated loss of £0.9m in grant monies. The Council is currently making representations to central government about the population estimates, which are regarded as significantly understated;
- Housing and Community Care - Learning Disabilities are projecting an overspend of £0.5m as a result of an increased number of placements in residential care and additional staffing costs. Physical Disabilities are also showing a £0.5m overspend with the main pressures within the Homecare budget and increased numbers of clients receiving direct payments. However, these areas have been offset by under spending in other areas and a contingency budget; and
- Environment and Culture - In 2004/05, the Parking Account showed a significant loss of income due to theft and vandalism of meters. Budget monitoring in November 2005 demonstrated that this had largely been overcome. However, the transition to a new contractor in July led to a dip in performance with consequential costs and loss of income. Land Charges also showed a downward trend in 2004/05 leading to an anticipated £0.3m shortfall.

Housing Revenue Account (HRA)

The HRA balance carried forward at the end of 2004/05 is £0.4m compared with the surplus of £1.3m in 2003/04. The Council is monitoring this balance to ensure that prudent reserve levels are maintained.

Capital Programme

Total spending on the capital programme in 2004/05 was £110.5m, made up of £58.3m on the General Fund and £52.2m on the HRA. The overall surplus available to be carried forward to fund the 2005/06 capital programme was £6.2m. The programmed levels of capital expenditure will lead to a surplus of £2.8m in 2005/06 and a deficit of £3.2m in 2006/07 and £1.98m in 2007/08. This is set out in the 2005/09 Capital Programme which has been agreed by the Full Council and takes into account the revenue cost implications of the planned levels of expenditure.

The costs of the South Kilburn NDC development are significant, and estimated by the Council at just under £1bn (including capital and revenue elements). This will be funded from various sources, including:

- An element from rents and borrowing;
- £18m from New Deal for Communities; and
- An amount raised through selling private properties (dependant upon market forces and hence difficult to predict with certainty).

The master plan for development has been completed and the Council has received two bids for the delivery vehicle, which are being reviewed. Activity is expected to begin in 2005/06 for 7-8 years. Care must be taken to identify which pots of funding can be applied against each of the initiatives. The Housing Department estimates a potential funding gap of around £60m, and options are being considered to respond to this.

The schools capital programme is discussed separately in the section below.

Schools Balances

Schools balances increased by £0.8m in 2004/05, to £3.3m.

The Children and Families Directorate have had to deal with around 400 additional children without a school place since the summer of 2005, of which 280 were secondary school pupils. Classes and assessment centres have been found within other Council buildings where placements have not been possible. It is estimated that £1m is required to meet the cost of temporary classrooms for children who would otherwise be out of school, of which £0.5m will be required in 2005/06. Additional revenue costs will be met by the savings in schools budgets including those savings resulting from delays in establishing a new Pupil Referral unit.

This issue highlights the need for long term investment in Brent schools. Demands on capital resources include the need to modernise the Special Educational Needs Service, meet demands for additional schools places, replace hitted class-rooms, meet repairs and ensure curriculum needs are met. This is complicated by the fact that Brent has been placed in the later phases of the Building Schools for the Future programme and was unsuccessful in the bid for the Targeted Capital Funding for Wembley Manor infant and primary school. The Council is currently making representations on

the decision on Targeted Capital Funding for Wembley Manor.

A report on the need for secondary places commissioned in January 2005 has estimated that by 2014 an additional 14 forms of entry (2,100 places) will be required to meet the increased demand. One proposal that has been made to address the shortage of places is to establish a second City Academy in Brent by September 2009. The Council does not have the Capital resources to propose a Community school (estimated cost £25m to £30m). However, the construction costs of an Academy would be met by the DfES. These issues will be addressed as part of the development of the 2006/07 to 2009/10 capital programme.

The impact of the Building Schools for the Future (BSF) programme is still uncertain although the indications are that funding will not be received until 2009/2010 at the earliest. The result of this delay is that the Council will have to allocate capital funding to schools in the short term as part of the capital programme. There are also concerns at a national level that the BSF funding will not be sufficient to meet the cost of capital financing charges and capital costs, and this may impact on Brent's BSF programme.

Income Collection and Arrears

Capita's performance in the 2005/06 year has been good, exceeding the amount collected in Council Tax at the same time in 2004/05. There has been improvement to arrears collection for 2004/05 with reported performance showing 94.32% collected at the end of November. However, it is unlikely that the contractual target of 95.5% will be achieved.

NNDR collection has remained positive, with collection to November 2005 exceeding the same date in 2004/05 and indicating that the contractual target is likely to be exceeded by the end of the financial year. There is an improvement plan to increase the collection rates and work started in November 2005 to implement this plan.

Systems of Internal Control

We have not identified any significant weaknesses in the overall control framework. Other matters are identified below:

Debt Management

We identified some issues around debt recovery at service unit level, around the clarity of information supporting older debts. There is potential scope for the Council to improve the analysis of debtor balances in areas such as Homelessness, Streetcare and Parks Services – which may enable it more easily to pursue recovery of debts that have been provided against. In these cases write off (rather than provision) may also become appropriate, if it is clear that amounts cannot be recovered.

We understand that the Council is re-examining its debt recovery strategy and a task group involving members has been established to examine debt recovery and reporting procedures. We will continue to monitor the Council's actions in this area during 2005/06.

Internal Audit

Following our comments on Internal Audit's capacity last year, we discussed the scope of their planned work at an early stage, and developed a coordinated approach to performing tests of individual transactions and balances included in the 2004/05 accounts. Although this resulted in some additional testing by PwC compared with prior years, this helped to ensure that the volume of Internal Audit work was more manageable and that any risk of duplication of work was minimised. This enabled us also to perform a focused audit in higher risk areas.

We considered the work performed by Internal Audit, as required by Statement of Auditing Standard 500. We concluded that we were able to place reliance on their work in relation to the 2004/05 financial year.

Statement on Internal Control

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by an Authority in England should contain a Statement on Internal Control (SIC). This statement refers to the full range of internal controls, rather than being limited to financial controls. It requires the Council to conduct an annual review of the effectiveness of the system of internal control, which provides the evidence to support the SIC.

The SIC produced within the 2004/05 financial statements is compliant with expected requirements and reflects the controls in operation during 2004/05 and areas for future development.

Electors' Questions and Objection

We have responded to a number of questions raised by local government electors during the year. Due to an ongoing objection, we are unable to issue our certificate on the completion of the audit at this stage.

E-Government

Local Authorities are expected to meet BVPI 157 which requires all services to be delivered electronically by December 2005. All local authorities submitted four Implementing Electronic Government (IEG) statements to the ODPM in July 2001, October 2002, November 2003 and December 2004. A further statement (IEG 4.5) was submitted in July 2005, and a final statement will be submitted in December 2005. Since 2004 these statements have included progress on the Priority Outcomes as well as BVPI 157.

We have been undertaking annual reviews of Brent's e-Government arrangements since 2002. As the Council is now close to the final date for full implementation of BVPI 157, this year's report focuses on achievement of this milestone, together with progress against the Priority Outcomes. We also consider action that needs to be taken by the Council beyond the December 2005 deadline.

In the draft version of its IEG4.5 statement, the Council indicated that it has achieved 94% e-enablement at 31 March 2005. Based on our discussion with officers the Council identified that it has plans to e-enable the remaining services (approximately 60) by December and that it expects to meet its objectives. Consequently the Council is confident of achieving the BVPI 157 standard and its current rate of progress and the plans in place suggest that this is achievable.

The Council has indicated that generally its progress against Priority Outcomes is good. There are a number of areas which are identified as being amber. These largely relate to initiatives that are being run by external

bodies, although they do include their CRM system and the booking of leisure facilities. However the Council is confident that these will be fully active by the March 2006 deadline.

The Council has budget and plans in place to extend e-Government related projects to 2008, although these may no longer use the 'e-Government' label. Officers have begun undertaking work to create 'as is' process maps of some services and will continue this, along with a shifting focus toward the efficiency agenda.

Progress appears to be good, and the Council is well within reach of the BVPI157 target. Based upon our brief review, the Council appears to have the Priority Outcomes under control and has plans in place to ensure 'e-Government' moves forward beyond the 2005 deadline.

Whilst this is all positive there are a number of actions for the Council to consider in order to ensure this progress continues:

- The Council should continue to monitor its progress against BVPI157 to ensure that the final steps are completed and the target is met;
- The Council should continue to monitor the progress made both internally and externally to address those Priority Outcomes where it has responsibility to deliver these outcomes;
- The Council should continue to work with the West London Alliance and London Connects to share information, as well as development and procurement opportunities;
- The Council needs to build on the work already carried out around process reviews. Whilst the mapping of existing services and those elsewhere is a positive step, to gain real benefit is needs to be taken further to ensure services are improved and made more efficient; and
- The work on e-procurement should be developed further to make the most of the opportunities this provides. In particular a move toward bulk, council-wide buying could provide significant efficiencies.

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 these cases that have been brought to our attention during the year.

The Legality of Financial Transactions

We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Brent's Pension Fund

We comment on the following key areas in this section:

- Pension Fund Valuation;
- Governance; and
- Other areas for consideration.

During the year we conducted an audit of the Council's pension fund. The findings of this review are discussed in this section.

Pension fund valuation

The actuary undertook a valuation of the pension fund at March 2004. They assessed whether the assets of the fund and future contributions will meet liabilities. The valuation of £344.2m indicated a funding level of 67% of liabilities, equating to a deficit of £174m. The Council is by no means alone in showing a deficit on its pension fund, though its funding level of 67% is just under the average for local authorities, calculated by CIPFA last year, of 71%.

Following the actuarial valuation in 2004/05, Brent produced its Funding Strategy Statement (FSS) in 2004/05, as required by statute. This document establishes the strategy to identify how employers' pension liabilities are best

met in the future while maintaining as near constant as possible a rate for employer contributions.

In their FSS, Brent set out that it aims to recover the deficit in the Fund over the next 25 years. As noted above, the Council has been consistent with the norm for local government. The Fund has agreed an increase in employer's contribution rate for the three financial years from 2005/06. The contribution rate is to be raised by 4.5% in stages over the next three years, from 18.6% in 2004/05 to 23.1% by 2007/08.

The stepped approach meets the objective of holding the rate as constant as possible and is consistent with government advice. It means that the impact of the increase will not be felt quite as promptly as if applied from Year 1, but that the impact will be made good by the end of the three year period. In periods of strong investment performance, the Fund will be slightly disadvantaged; in periods of declining performance, there could be an advantage to the Fund.

Over the course of recent valuations, increased contributions have in practice been insufficient to arrest the increasing deficits in local government, which are affected by demographic trends such as increased longevity and by poor investment performance.

It was noted during our final accounts audit visit that pension fund issues are not included on the Council's risk register. This is particularly important since a fall in the market would have a significant effect on the pension fund deficit

and potentially require further corrective action to be taken in future years.

We believe that members should continue to monitor the situation, and be prepared to take further steps if circumstances warrant it. The FRS 17 information disclosed within the financial statements will provide an annual indication of the likely direction of the deficit.

Following discussions with its actuary, the Council decided to plan to recover deficit over 25 years. This compares against a local authority average, calculated by CIPFA last year, of 20 years. Establishing the period for recovery is a matter of judgment. However, there also needs to be a proper regard for ensuring that:

- The deficit can be recovered over a reasonable period;
- The charge in the accounts for pensions reflects the true costs incurred in the year; and
- Future council tax payers are not unreasonably burdened as compared with the current generation of taxpayers.

The Council intends to review the recovery period at the next Actuarial Valuation (2007), when conditions may be more favourable and allow a revision to the current 25 year treatment. We will continue to review the prudence of the recovery of the deficit as part of subsequent audits.

Other areas for consideration

The Pensions Act 2004 came into force from 6 April 2005. Among other things, the Act imposes a duty on the Council and other employers to report breaches of applicable law which are likely to be of material significance to the Pensions Regulator. In the course of our work on the Pension Fund, it was found that there was no official procedure for reporting any such breaches, if they arise. In response to this observation (which was raised in our Report of the Audit of the 2004/05 Accounts), the Council intends to write a protocol to cover these exceptional occurrences.

Performance management

We comment on the following key areas in this section:

- Comprehensive Performance Assessment;
- Use of Resources;
- Best Value;
- Targeted Audit and Inspection Work;
- Gershon Efficiency Strategy; and
- Follow Up of Previous Performance Reports and Audit Letters.

Comprehensive Performance Assessment (CPA) – Audit Commission

The Council is currently rated as improving well and demonstrating a 3 star performance in CPA terms. Brent is aiming to move to “Excellent” by December 2006.

To drive improvement officer/member panels have been set up. These focus on services with identified performance issues - including children’s services, revenues and benefits, waste, recycling and sport - and a Brent performance fund was established to fund projects to help deliver improvements. The Council’s Performance and Finance Select Committee also plays an increasingly important role in addressing aspects of weak performance.

The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. Included in the overall CPA category is the Use of Resources judgement made by the appointed auditor in October 2005. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is 3 stars.

CPA scorecard (Note: 1=lowest; 4=highest)

Element	Assessment
Direction of Travel judgment	3 Improving well
Overall	3 Stars
Current performance	
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	3
Environment	2
Culture	3
Benefits	3

Direction of Travel

3 – Improving well

The 'Direction of Travel' for 2005 has been produced by the Relationship Manager from the Audit Commission and is summarised below:

Brent is performing well and Council services are improving in line with priorities, including education, housing, recycling, street cleaning and social care. Overall satisfaction with the Council is increasing and more than 75 per cent of performance indicators have improved since 2002/03. Effective partnership working has led to major regeneration projects within the Borough, for example Wembley and South Kilburn. The Council works well with partners to tackle issues such as crime. However, some services are showing less improvement, notably waste management. The Council recognises its diverse communities and in response has improved the services it offers such as older people's services and helping people find work. Overall, the Council is delivering good value for money. The Council has robust plans in place for further improvement and a good track record of delivery. Council capacity has increased, for example, through improved procurement practices and staff development, although further improvement is needed to deliver effective human resource arrangements. Brent is well placed to continue to deliver sustained improvement in services that matter to local people.

Use of Resources – PwC

Use of resources judgments

The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

For the purposes of the CPA we have assessed the Council's arrangements

for use of resources in five areas (described below). The Council performed a self-assessment against the key lines of enquiry for each of the five judgments. We reviewed and challenged the self-assessment and supporting evidence and drew on our cumulative audit knowledge. This resulted in scores which were submitted to the Audit Commission to form part of the overall assessment, which is summarised below:

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

(Note: 1=lowest, 4=highest)

Under the Audit Commission's definition a score of 3 represents an authority that is consistently above the minimum requirements and performing well.

We recognise that Brent will be striving to achieve a maximum score across all the elements in 2006/07 and we would encourage officers and members to think about how they can demonstrate exemplary practice in these areas. Key issues arising from the 2005/06 Use of Resources exercise are as follows:

- Financial Reporting – greater consistency in working papers across services, together with publication of an annual review and summary of accounts in a single document;
- Financial Management – greater clarification in the financial management of services jointly provided with partners. In addition, the Council should consider producing fully accrued revenue and capital financial information and summary balance sheets on a quarterly basis;
- Financial Standing – the Council needs to demonstrate that it is

progressing quickly towards its target for an acceptable minimum level of reserves. Its performance in this respect will be under close scrutiny in 2005/06, given anticipated disadvantageous settlements thereafter;

- Internal Control – there needs to be greater clarity in the management of partnership risk (both in the risk register and in constitutional documents). There needs to be more member training in risk management and steps need to be taken to ensure that risk management is properly embedded in service delivery; and
- Value for Money – Despite improving performance, user satisfaction remains below average in some areas. There is scope to increase the efficiency gains achieved through Best Value Reviews. Steps need to be taken to ensure that implementation of report recommendations results in tangible efficiency gains. The Council also needs to develop and deliver its procurement strategy in order to benefit from a standard approach that is consistent across services.

The Key Lines of Enquiry produced by the Audit Commission provide some examples of the practices considered exemplary, although these are only suggestions. We have been discussing best practice, as well as lessons learned from the 2005/06 exercise as part of our ongoing dialogue with officers. This should assist them in preparing for future Use of Resources exercises.

Best Value – PwC

Performance Plan

Under the Local Government Act 1999 auditors are required to carry out an audit of the Council's Best Value Performance Plan (BVPP). Our work on the Council's June 2004 BVPP was reported in our 2003/04 Audit Letter

We have completed our fieldwork on the Council's 2005/06 Plan, including work on the 2004/05 performance indicators. We have issued an unqualified opinion on the Plan and this is provided at Appendix B. We have outlined our findings from our work on performance indicators below.

Performance Indicators

The Council continues to make further improvements to the quality of its published performance information. This year we placed reservations on two Best Value Performance Indicators (BVPIs). This is an improvement compared with last year where there 5 reserved indicators. We were also pleased to note that the Council has now implemented a more robust methodology for calculating BVPI 8 (Prompt Payment of Invoices).

The two reserved indicators were BVPI 174 and 175 (Reporting of Racial Incidents), which have been reserved in previous years. Although the Council has made some progress in implementing systems to capture the required information these systems are not yet in place in all departments.

In addition we reserved two of the CPA indicators selected for audit by the Audit Commission. These related to the Culture Stock turnover indicator and the Public Library Service standard on Stock PLS 10. In both cases there were insufficient audit trails to support the published figures.

Targeted audit and inspection work

Community Safety – Audit Commission

In early 2005 Brent had the highest increase in crime of neighbouring boroughs. The Council asked the Audit Commission to undertake improvement work with the Crime and Disorder Reduction Partnership.

The report was completed in June 2005 and made a number of recommendations for improvement, addressing areas such as: accountability, analysis and joint working arrangements. The Council has acted on these recommendations.

Human Resources – Audit Commission

In May 2005 the Audit Commission was invited by the Council to assess progress it had made against the recommendations of a review of Human Resources conducted by the Commission in July 2003. We found that improvements had been made to HR services since our last review, however, we found that an agreed HR strategy setting out the vision, direction and priorities for HR services in Brent was still lacking.

The report made a number of recommendations including carrying out a thorough appraisal of options for the future delivery of HR services; implementing an HR strategy (People Management Strategy); and establishing appropriate support, challenge and scrutiny, at a political and senior management level, for the delivery of HR services and people management across the council.

The Council has developed an action plan to deliver on these recommendations and an HR strategy is now in place. A report was also presented to the Executive in 12 December 2005 which detailed the way forward for HR.

Insurance Claims Handling review – PwC

In 2003/04 PwC's insurance specialists carried out a high level review of insurance arrangements the Council. Initial findings were that:

- There was a marked increase in public liability and personal injury claims costs; and
- There was scope to strengthen both internal controls and the expertise available to deal with insurance issues and also improve the management of the Council's relationship with its main insurance provider, Zurich Municipal.

In February 2005 we carried out a more detailed review of the Council's claims handling processes and controls. We identified a number of areas where there is the potential to reduce claims expenditure and risk, as well as to improve management of the day to day claims operation. These include:

- Scope to improve the efficiency of the risk management process (in particular, highways claims) and the opportunity for better preventative measures;
- Reduce delays in the claims handling process;
- Improve the quality of management information provided to the council by its insurer; and
- Improve the insurer's documentation for the settlement process and

for Brent to implement a clear service level agreement.

We presented our report to officers in June 2005 and it was agreed that views would be captured and fed into a further insurance study to be undertaken in 2005/06. The Council is making progress in its response to third party claims, risk management and insurance control action points, but needs to keep on top of these and to develop appropriate performance indicators to enable the Director of Finance and Resources to ensure that costs are controlled.

Our 2005/06 work will also focus on broker selection and contract renewal. Preparatory work will be undertaken by Brent officers, facilitated and project managed by PwC's insurance experts. There is to be a workshop facilitated by PwC that focuses on strategic positioning, as well as the establishment of a Project Board.

Housing Benefits: Pre "CPA Health check" – PwC

At the request of the officers, PwC undertook a review of the 65 Housing Benefit performance enablers, prior to the submission of the Council's self assessment to the Benefit Fraud Inspectorate (BFI) as part of Comprehensive Performance Assessment.

Our assessment of the evidence available indicated that 46 of the 65 enablers had sufficient evidence to meet the enabler criteria set out by the BFI. Using the scoring and weighting methodology set out in the guidance issued by the Department for Work and Pensions¹ we calculated that this level of performance would achieve an overall score of 3 (Good) for the enablers.

In general we found that evidence to support the Claims Administration, Security and User focus themes was adequate although there is scope to improve management information and evidence gathering processes.

In addition to identifying those enablers where more robust evidence was

¹Housing Benefits Circular HB /CTB A6/2005.

required, we also made some high level recommendations around management information processes and cross-departmental working. These recommendations were designed to improve the Council's preparation for future housing benefits CPA assessments. We issued our draft report to officers in July 2005.

Review of Section 31 Framework Agreement – PwC

At the request of the Council we carried an overview of the draft framework section 31 agreement to be entered into by the Council with Brent PCT.

We assessed the draft agreement against best practice outlined in the Department of Health Checklist for Using Health Act Flexibilities to identify areas of risk including the treatment of underspends against contributions which may benefit from more detailed examination;

We concluded that overall the draft framework agreement was in line with best practice but made some recommendations to further strengthen the final agreement. An action plan was subsequently drawn up jointly between the Council and Brent Primary Care Trust in October 2005. This demonstrates that appropriate actions either have been or are in the course of being undertaken following PwC's report.

Data Quality follow-up – PwC

In August 2004 PwC undertook an audit to provide assurance on the consistency and accuracy of data underlying a sample of Performance Assessment Framework (PAF) indicators. The audit assessed the management arrangements underlying social services data collection and monitoring and also included in depth examination of the data supporting seven PAF indicators published in 2003/04.

Although we found some evidence of good practice in relation to policy, strategy and operational practice, we found that the production of the 2003/04 indicators relied upon a range of locally developed stand-alone spreadsheets and manual data collection processes. The processes underlying the referrals and assessment (RAP) return for 2003/04 were particularly weak with a lack of adequate audit trails and as a result of this we placed a reservation on BVPI 54.

The Council has made some progress in the last year in addressing our high priority recommendations. Key improvements include:

- Much of the data underlying central returns can now be extracted centrally from the Framework I database, thus reducing the scope for transposition errors and strengthening audit trails;
- The use of standalone systems has been largely eradicated following an exercise to validate all of the information held on Framework I against any stand alone systems; and
- The department has now implemented a new database for the equipment stores and this has improved the quality of occupational therapy data.

However Framework I is not yet fully reconciled with the Abacus finance system and discussions are still ongoing with the IT supplier Trojan to rectify age calculation problems within the Abacus reporting function.

The Wembley Development and new Civic Centre – PwC

The Council produced an interim accommodation strategy covering the next 6-8 years pending development of a new state-of-the art civic centre in Wembley.

We have agreed with the Chief Executive that our role in the project should be limited to that of 'critical friend'. At this stage this involves reviewing and commenting upon principal reports prepared for the Executive and maintaining regular contact with officers in the lead in to the business case preparation process. We will continue to ensure that there is no conflict of interest with our role as the Council's Appointed Auditors.

Gershon Efficiency Strategy

The Council submitted its forward (2005/06) and backward (2004/05) looking Annual Efficiency Statements (AES) in April 2005 and July 2005 respectively. The AES for 2004-5 illustrated that the Council had already achieved significant efficiency gains totalling £11.4m (of which £9.6m were cashable). A sizeable proportion of these gains were attributable to procurement efficiency savings secured by Brent Housing Partnership.

The Council's forward looking AES for 2005/06 sets out a target efficiency gain of £3.89m (of which £2.87m will be cashable savings). The Council has a strategy in place for achieving Gershon savings. It is planned that the overall efficiency target will be met through a combination of efficiency gains being delivered at service level and through a programme of cross-cutting efficiency projects based around the four Gershon themes of support services, procurement, transaction costs and productive staff time. In addition, schools are being supported across the whole piece. The efficiency programme is underpinned by:

- An Efficiency Board to oversee the programme;
- Programme and project management plan;
- A communications plan to embed awareness of efficiency across the organisation;
- The establishment of cross departmental working groups for each theme that are tasked with identifying opportunities and developing projects to make efficiency savings;
- An efficiency intranet site for sharing best practice; and
- A budget of £0.250m to support efficiency projects on an invest-to-save basis.

We will monitor the Council's progress in implementing the efficiency strategy during the year and will assess the impact of the programme as part of our Use of Resources assessment in the summer of 2006.

Other work

Grant claims

Our audit work in relation to 2004/05 grant claims is in progress. We intend to submit a separate report on the Council's arrangements for managing and quality assuring grant claims to the Director of Finance and Corporate Resources in the New Year, once all claims have been audited.

National Fraud Initiative

The Council's participation in the Audit Commission's National Fraud Initiative is ongoing. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.

We considered the progress made by the Council in this respect as part of our Use of Resources work. A joint arrangement with the Department for Work and Pensions whereby two employees are seconded to Brent to work on this and other initiatives has ensured that the process is efficient.

Audit plans and fees update for 2004/05

Audit Plan 2004/05

We issued our Audit Plan for 2004/05 and presented it to the Performance and Finance Select Committee in April 2004. The Plan was subsequently updated and presented to the Committee in June 2005.

Fees update for 2004/05

We reported our fee proposals as part of the Audit Plan for 2004/05. Although our work on the accounts resulted in an additional level of detailed work at Service Unit level, we were able to absorb this within the overall proposed fees.

As shown in the table below, our actual fees were in line with our proposals:

Audit area (<i>Figures in £'000s</i>)	Plan 2004/05	Actual 2004/05
Inspection – 2005/06	111	111
Performance	153	153
Total	264	264
Accounts and Governance	260	260
Total Code of Audit Practice fee	524	524

Audit Plan 2005/06

We presented our Audit Plan for 2005/06 to the Performance and Finance Select Committee in June 2005. Our Audit Plan is reviewed regularly to ensure that it remains appropriate for the whole of the financial year.

Looking forward

Future audit and inspection work

We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The statutory requirements governing our audit work, are contained in:

- The Audit Commission Act 1998; and
- The Code of Audit Practice (the Code).

The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Performance and Finance Select Committee in June 2005. The key changes include:

- The requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- A clearer focus on overall financial and performance management arrangements.

Appendix A: Audit reports issued in relation to the 2004/05 financial year

The following audit-related reports have been issued during 2004/05

- Community Safety – Audit Commission report - June 2005
- Human Resources – Audit Commission report – July 2005
- 2004/05 Audit Plan;
- 2004/05 Audit Plan update (part of our 2005/06 Audit Plan);
- Report to those charged with Governance on the Audit of the 2004/05 Financial Statements;
- Audit opinion for 2004/05 financial statements;
- BVPP opinion issued by December 2005;
- CPA auditor scored judgements issued in November 2005;
- Various grant reports;
- Insurance report;
- Review of Section 31 Framework Agreement; and
- Housing Benefits – Pre “CPA Health check”.

In addition, we undertook a Payables Review and Recovery Services exercise (“Cashfinder”), which fell outside of the Code of Audit Practice requirements. The review looked at overpayments to suppliers, including duplicates, erroneous payments and outstanding credits due and ensures that invoices reflect proper agreed pricing and any discounts receivable. The second phase looked at the Council's processes for properly recognising VAT accruals.

Appendix B: BVPP Statutory Report

Auditor's Report to Brent Council on its Best Value Performance Plan for the Year ending 31 March 2005

Certificate

We certify that we have audited Brent Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the relevant parts of the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Council and the Auditor

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

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Office of the Deputy Prime Minister.

As the Council's auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan;
 - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming our opinion on whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the relevant parts of the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In our opinion, Brent Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, we are required to recommend the procedures to be followed by the Council in relation to the plan.

Basis of recommendations

For the purpose of making our recommendations, we conducted our audit in accordance with the relevant parts of the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and the testing of specific performance indicators selected by the Audit Commission for its comprehensive performance assessment of the Council.

Recommendations

On the basis of our audit work, we consider that the matters set out below should be brought to your attention:

Systems for collecting and recording specified performance information

Overall, the Council complied with the requirement to collect and report on specified performance information.

This year we reserved two best value performance indicators (and in addition two of the non Best Value CPA indicators selected for audit by the Audit Commission). This marks a continuing improvement compared to last year when we reserved a total of five indicators.

We are pleased to note that in response to our recommendations the Council has strengthened the robustness of the calculation method and the audit trails supporting BV 8 (invoice payments) enabling us to lift the reservation on this indicator.

Recommendations on referral to the Audit Commission/ Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of our work:

We do not recommend that the Audit Commission should carry out a best value inspection of Brent Council under section 10 of the Local Government Act 1999;

We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999

In the event that, pursuant to a request which Brent Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Brent Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Brent Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Brent Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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