



Audit Committee – supplementary agenda

Thursday, 16 December 2010 at 7.30 pm
Committee Room 4, Brent Town Hall, Forty Lane,
Wembley, HA9 9HD

Membership:

Members

Councillors:

Al-Ebadi (Chair)
Ashraf
Van Kalwala

first alternates

Councillors:

Beckman
Green
Harrison

Second alternates

Councillors:

S Choudhary
Cummins
Hector

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The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

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5 Annual Audit Letter	1 - 40


A revised report is attached following the receipt from the audit Commission of the final version of the Annual Audit Letter and a progress report dated December 2010.

Ward affected: **Contact Officer:** Simon Lane, Audit and Investigations

All Wards; Tel: 020 8937 1260 simon.lane@brent.gov.uk



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	<p>Audit Committee 16 December 2010</p> <p><u>Revised</u> Report from the Director of Finance and Corporate Services</p>
<p>For Information</p> <p>Wards Affected: ALL</p>	
<p>Annual Audit Letter and Progress Report</p>	

1. Summary

- 1.1. This report introduces the Annual Audit Letter and the progress report from the council's external auditors, the Audit Commission.

2. Recommendations

- 2.1. The Audit Committee is asked to consider the annual audit letter and note the council's response to the recommendations made as set out in appendix 2.
- 2.2. The Audit Committee is asked to note the Audit Commission's progress report.

3. Detail

- 3.1. The annual audit letter is attached at appendix 1. The letter summarises the findings from the 2008/09 audit and includes issues arising from the audit of the financial statements and assesses the arrangements to secure value for money in Brent's use of resources. Officers from the Audit Commission will attend the meeting and present the letter.
- 3.2. There are four recommendations arising from the letter. These are set out in appendix 2 together with the council's response.
- 3.3. The progress report is attached at appendix 3.

4. Financial Implications

4.1. The Audit Commission fees for carrying out this work are set out below:

Item	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	362,000	347,000	15,000
Value for money	123,000	123,000	0
Foundation School Arrangements	12,500	0	£12,500
Certification of grant claims	Tbc	85,000	tbc

5. Legal Implications

5.1. None.

6. Diversity Implications

6.1. None

7. Background Papers

7.1. None

8. Contact Officer Details

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Telephone – 020 8937 1260

Clive Heaphy
Director of Finance and Corporate Services

Annual Audit Letter

London Borough of Brent

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 8); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 9 to 14).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's financial statements on 30 September 2010.

2 The financial statements presented for audit were complete, but required one material amendment and several other minor amendments. The Chair of the Audit Committee considered and approved the amendments on 30 September 2010.

3 I experienced problems completing my work in the Housing, Adult and Social Care and Children and Families departments. This meant I spent more time than planned resolving audit queries and completing my audit work in these areas. This resulted in an additional audit fee being charged.

Pension Fund

4 My audit opinion on the financial statements included an unqualified opinion on the Pension Fund's financial statements. The statements presented for audit contained no material errors.

5 I experienced problems auditing investments because of incomplete supporting working papers and audit trails that were difficult to follow in some areas. This resulted in an additional audit fee being charged.

Value for money

6 I issued an unqualified value for money conclusion on 30 September 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

7 I reviewed the Council's arrangements and responsibilities in respect of Copland Community School, following allegations of financial mismanagement and undue patronage thought to be occurring at the School. I reported my findings to management and the Council's Audit Committee in September 2010. In my report I make recommendations to improve the Council's risk management, internal control and performance management of foundation schools.

Audit fees

8 I raised additional fees of £15,000 and £3,000 on the Council's main and pension fund audit of financial statements respectively, as detailed in paragraphs 3 and 5 above and at Appendix 1.

9 I have also charged a total fee of £35,500 for my investigation into the Council's arrangements and responsibilities in respect of Copland Community School.

Current and future challenges

10 The economic downturn and cuts to public spending, including those announced in the Government's Comprehensive Spending Review in October 2010, continue to create challenges for local government bodies. The Council has demonstrated good management of its finances in the past. However, to achieve the level of savings and efficiencies required, new ways of delivering services and improving efficiency will be needed.

11 The Council has recognised the level of change needed and has implemented its 'One Council' Improvement and Efficiency programme designed to deliver efficiency savings in excess of £50 million over a two-year period. It is an ambitious programme requiring strong leadership and effective management. My initial review of the programme found good progress had been made in establishing robust arrangements and obtaining the expertise needed to identify and drive through change. The challenge now is for the Council to deliver the programme in a shorter than planned timescale whilst maintaining the capacity to deliver good quality services.

12 The government's cancellation of the Building Schools for the Future programme means a loss of £80 million of capital investment in the borough's schools. The Council now needs to establish how it will address the need for improvements to school buildings and the need for more school places.

13 All councils will be required to implement International Financial Reporting Standards (IFRS) in 2010/11. Although the Council has made good progress in some key areas in planning for this change, focus on this area needs to be maintained to ensure implementation is completed within appropriate timescales.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, the statutory target date.

Overall conclusion from the audit

14 I issued an unqualified opinion on the Council's financial statements on 30 September 2010.

15 I reported the following key issues in my Annual Governance Report which I presented to members of the Audit Committee on 29 September 2010.

- Bad debts written off of £12.7 million, a material error, was misallocated between income and expenditure in the Collection Fund Statement.
- The accounting for the Housing Private Finance Initiative (PFI) did not take account of assets being delivered on a phased basis. This resulted in numerous non material amendments required to correct the error.
- The Council amended the financial statements for agreed adjustments, which had no impact on the available revenue reserves.
- the Council chose not to amend one error, relating to a reconciling difference between main accounting records and housing records. If this item were adjusted it would increase the reported deficit by £192,000.

16 2009/10 was the first year changes were introduced in respect of accounting for PFI arrangements, a new reporting standard for Service Concession Arrangements. Overall, the Council met the reporting requirements, prepared good working papers and obtained expert advice where appropriate.

17 I experienced problems completing my work in the Housing, Adult and Social Care and Children and Families departments. In these areas the Council was slow providing supporting documentation and responding to audit queries. This meant I spent more time than planned completing my audit work which resulted in an additional audit fee of £15,000 being charged.

Overall conclusion from the pension fund audit

18 My audit opinion on the financial statements included an unqualified opinion on the Pension Fund's financial statements. The statements presented for audit contained no material errors.

19 I reported the following key issues in my Annual Governance Report which I presented to members of the Audit Committee on 29 September 2010.

- The financial statements presented for audit did not include all the disclosures required by the Pension Fund Statement of Recommended Practice (PF SORP). These largely related to detailed disclosures required for investments held at year end.
- Not all investment values included in the financial statements agreed to year-end custodian and fund manager reports. The adjusted values decreased the surplus reported in the Fund Account by £783,000.

20 I experienced problems auditing investments because of incomplete working papers and audit trails that were difficult to follow in some areas. This resulted in an additional fee of £3,000 being raised.

Whole of Government Accounts

21 The Council filed its whole of government accounts (WGA) return on 13 August 2010 after the 30 July 2010 deadline. The Council informed Communities and Local Government (CLG) department that the delay was due to number of reporting changes introduced this year and staff capacity. I certified the WGA consolidation pack on the 11 October 2010, after the deadline of 1 October 2010. This was a result of the late completion of financial statements and the number of the amendments identified by the audit.

Financial Audit

22 I have summarised the findings from my Annual Governance Reports below.

Table 1: **Summary of findings from Annual Governance Reports**

Detail	Council audit	Pension Fund audit
Financial statements		
Unqualified audit opinion	Yes	Yes
Financial statements free from material error or mis-statements	No	Yes
Adequate internal control environment	Yes	Yes
Adequate arrangements for securing value for money	Yes	Yes
Whole of Government Accounts		
Certified consolidation pack by deadline	No	n/a
Consolidation pack free from material mis-statements	No	n/a

Source: Annual Governance Reports: September 2009/10

Recommendation

R1 Improve year end financial reporting arrangements across the Council.

Significant weaknesses in internal control

23 I did not identify any significant weaknesses in your internal control arrangements.

Legal matters and completion of the audit

24 In my 2007/08 and 2008/09 Annual Audit Letters, I explained that I could not formally close these audits until I had completed my consideration of two outstanding matters:

- the Council's involvement in London Authorities Mutual Limited (LAML); and
- my investigation into issues raised in respect of Copland Community School.

25 I have now dealt with these matters and I closed the 2007/08 and 2008/09 audits, together with the 2009/10 audit on 30 September 2010.

London Authorities Mutual Limited (LAML)

26 The Council and some other London Boroughs established a mutual insurance company, London Authorities Mutual Limited (LAML) to provide insurance to all the participating authorities, in order to achieve cost savings and improve risk management. The Council's investment in LAML amounted to £261,000. It also provided a guarantee of £609,000.

27 The Council initially anticipated there would be a gap between LAML being ready to provide insurance and the Council's previous insurance arrangements ending. The Council therefore initiated a tender exercise for insurance cover. Risk Management Partners Limited (RMPL) tendered for the contract but Brent abandoned the procurement exercise and instead awarded the contract directly to LAML.

28 RMPL initiated legal proceedings against the Council contending that the decision to set up and participate in LAML was not within the Council's legal powers. The High Court and subsequently the Court of Appeal decided against the Council. I am satisfied that the Council sought and considered legal advice before entering into its investment in LAML and has taken appropriate action in light of the Court's decision. LAML has now being liquidated and the Council is recovering the sums paid to the company. Overall, I am satisfied that there has been no material loss to the Council.

Copland Community School

29 In April 2009 I received allegations of financial mismanagement and undue patronage thought to be occurring at Copland Community School.

30 In the context of my responsibilities as auditor of the Council (I am not the auditor of the School) I made enquiries at the Council. I found the Council had also received a copy of the allegations and that it had asked its internal auditors to carry out a detailed investigation. I satisfied myself that the scope of the Council's investigation covered all aspects of the allegations. I subsequently focussed my investigation on whether the Council had suitable arrangements in place to carry out its responsibilities for the School, and whether those arrangements worked properly in practice.

31 I reported my findings to management and the Council's Audit Committee in September 2010. In my report I concluded that even though foundation schools have a high level of autonomy, the Council retains a responsibility over the proper administration of schools' affairs. This includes ensuring that satisfactory systems of internal control are in place and there is an effective internal audit.

32 I found there were some key weaknesses in the Council's arrangements and how they were applied. I recommended that the Council should improve its risk management, internal control and performance management of foundation schools.

Recommendation

R2 Strengthen risk management, internal control and performance management arrangements in respect of foundation schools.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

33 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Areas Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

34 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

35 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

36 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

37 A summary of my findings is overleaf.

Table 2: **VFM assessment**

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Not assessed in 2009/10
Strategic asset management	Yes
Workforce	Yes

38 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in the use of its resources.

39 To reach this conclusion, I used my review of arrangements in 2008/09 as a baseline and concentrated on the areas where the Council could demonstrate improved outcomes.

40 This year I concluded that the Council has strong evidence of value for money outcomes across many of its services. I set out some examples of the arrangements and outcomes identified during my review.

Managing finances

41 The Council continues to successfully manage its finances to deliver value for money for residents.

42 The Council has an integrated financial, service and corporate planning process covering the medium to long term. Stakeholders are consulted on financial planning issues, for example a consultation exercise is undertaken on the annual budget.

43 In 2009/10 the Council managed its budget, controlled overspending and maintained balances in line with the medium term financial strategy. The Council has a good understanding of its costs. Benchmarking has been used to identify high cost areas and to help target where efficiencies can be made.

44 The Council's financial monitoring and reporting is relevant, timely and supports strategic decision making. The Council's accounts generally comply with statutory requirements and reports are published in line with statutory requirements. The Council could improve arrangements supporting the preparation of its accounts to ensure there is a consistent high standard across the Council.

Governing the business

45 Overall, the Council has adequate arrangements to govern the business and deliver better outcomes for residents.

46 The Council is developing a corporate approach to procurement as part of its wider transformation programme. Service users are involved in some areas of commissioning, such as family and home care, but this is not yet consistent across the Council.

47 The Council has played a key role in the North West London Alliance to improve services and deliver savings. Through the cumulative buying power of the participating councils better contracts for domiciliary services and residential care, have been negotiated.

48 Data quality arrangements have improved. Management information includes trend and benchmarking data. Performance management includes monitoring of shared targets with partner organisations.

49 The Council promotes and demonstrates the principles of good governance across all staff levels. Strong member development arrangements are in place including cross party work and dedicated officer support.

50 Risk management arrangements are in place and meet minimum standards. Arrangements are not consistent between directorates, and there is scope to increase frequency of reviews and reporting to members.

Recommendations

R3 Embed good procurement practice across the Council.

R4 Embed good risk management arrangements across the Council.

Managing resources

51 The Council continues to manage its resources to deliver better value for money for residents.

52 This year I reviewed the Council's arrangements to manage its workforce for the first time. The Council is developing its workforce effectively to support the achievement of strategic priorities. Recruitment and retention activities have been successful in priority areas. Recruitment has been modernised through, for example, the introduction of an e-recruitment system.

53 The Council's workforce is representative of its local population in relation to gender and race. The 2009 staff survey found 71 per cent of respondents believe Brent is an equal opportunity employer and treat staff with fairness and respect. The Council are developing opportunities for flexible working arrangements.

54 The Council is developing a corporate approach to managing its assets. Since last year, arrangements have been made to ensure all departments buy-in corporate facilities management contracts. Council assets continue to be used well to deliver improved outcomes for the local community. Opportunities are explored to share asset use with partners such as the police and the local Primary Care Trust. Investment in backlog maintenance has reduced the backlog to an insignificant level.

Risk-based performance reviews

55 To support my review of the criteria I undertook the following studies:

- 'One Council' transformation, improvement and efficiency strategy review;
- health inequalities review;
- performance management follow up review; and
- human resources follow up review.

56 I have reported my detailed findings to the Council in separate reports and detailed key findings below.

Improvement and efficiency strategy review

57 My initial review was carried out in March 2010. At that time the improvement and efficiency programme had a medium to high inherent risk being large and complex, with its implementation having a long-term impact on the Council's ability to deliver its core business. The Council has built up a track record of delivering change projects but these are not of a similar size and scale as the One Council improvement and efficiency programme. The Council has recognised the need to invest in high quality project management. It has sought professional help to support and develop its own in-house resources.

58 The Council has also brought forward the target date for achieving cost reductions and savings by two years, increasing the risk of success in a shorter timescale. A key challenge will be ensuring the Council has sufficient capacity to deliver the programme whilst continuing to deliver a high standard of services and dealing with further finance pressures from the recent Comprehensive Spending Review.

59 The programme is challenging, however the Council has made good progress in establishing strong programme management arrangements. I will review progress again later in the year.

Health inequalities review

60 In 2008/09 I conducted a review of the Council and Primary Care Trust's (PCT) arrangements to tackle health inequalities in Brent. I identified some key strengths arrangements and some areas where the achievement of objectives were at risk. My follow up review in 2009/10 assessed how stakeholders were addressing the risks and assessed the arrangements to deliver the health inequalities programme. My overall conclusion is that the Council and PCT are working well together to tackle health inequalities, but significant challenges remain. The key findings were:

- there is a clear strategic commitment from the Council and the PCT to tackle health inequalities;
- the main partnerships have been identified but partnerships with other interested bodies are limited eg voluntary sector;
- the existing front line workforce can be used more effectively to tackle health inequalities by:
 - providing timely information on healthy lifestyles; and
 - highlighting services such as smoking cessation;
- an action plan has been developed and adopted by the Council and the PCT to address risks.

61 The Council and PCT are working to address these challenges and recognise that further improvements are needed.

Performance management follow up review

62 In 2008 I reviewed the Council's performance management arrangements. The review focused on:

- the means of how the Council's priorities were translated in to meaningful targets;
- the use of trend analysis and benchmarking;
- the progress on providing the IT infrastructure to support the performance management framework;
- adherence to data protection principles; and
- partnership performance management arrangements.

63 2009/10 I followed up on the recommendations made in my previous report and assessed what progress had been made in completing them. I found that good progress has been made implementing all of the recommendations, with specific actions taken to improve systems and processes. Further improvements can be made by making partnership information available on-line.

Human resources follow up review

64 I followed up progress since my 2007/08 review which identified further recommendations to improve arrangements.

65 Human resources (HR) has improved since 2008. It is now at the centre of the Council's business transformation plans. HR is proactive at giving early warning of potential workforce problems and suggesting solutions. Councillors and Corporate Management Team (CMT) now receive good performance information on HR and use this to take decisions. Comparative information on key areas such as sickness absence and employee turnover are regularly reviewed by chief officers. The Council plans to do more useful benchmarking.

66 Overall, HR is now better placed to help deliver the Council's transformation programme.

Approach to local value for money work from 2010/11

67 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

68 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

69 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial health

70 The economic downturn and cuts to public spending, including those announced in the Government's Comprehensive Spending Review in October 2010, continue to create challenges for local government bodies. As at 31 August 2010, the Council was projecting a general fund overspend of £5.6 million resulting largely from cost pressures in Children and Families and Adult Social Care. In year action has been taken and directors have been tasked with identifying additional cost savings, focussing on non-essential services. This is in context of a £261.9 million 2009/10 revenue budget, including a planned contribution of £522,000 from reserve balances.

71 The Medium Term Financial Strategy (MTFS) has identified a worst case scenario of £63 million cumulative shortfall over three years to 2013/14, assuming:

- a 2.5 per cent annual reduction in formula grant;
- no increase in Council Tax; and
- savings of £6.7 million a year.

72 In anticipation of further budget pressures, the Council presented a report to the Executive committee in July 2010, setting out the impact of a 25 per cent reduction in the government's funding formula. This provided a basis for members to consider further areas for savings and changes in service delivery.

73 The Council has recognised the level of change needed and has implemented its 'One Council' Improvement and Efficiency programme designed to deliver efficiency savings in excess of £50 million over a two-year period. The programme is expected to contribute to the Council's overall target of cutting costs by 20 per cent over the next four years and addressing a significant portion of the budget deficit in the MTFS.

74 It is an ambitious programme requiring strong leadership and effective management. My initial review of the programme found good progress had been made in establishing robust arrangements and obtaining the expertise needed to identify and drive through change. The challenge now is for the Council to deliver the programme in a shorter than planned timescale whilst maintaining the capacity to deliver good quality services.

International Financial Reporting Standard

75 Local authorities will prepare their Statements of Accounts under the new International Financial Reporting Standard (IFRS) based Code of Practice on Local Authority Accounting from 2010/11. The move to IFRS does not mean wholesale change, but where changes do occur a significant amount of work is needed to assess the impact on the accounts. Much of that work needs doing now as the 2009/10 accounts will need to be restated to provide the prior year balances in the 2010/11 accounts.

76 I have reviewed progress made by the Council and assessed progress as amber (green - low risk, red - high risk). The Council has assigned officers to the IFRS implementation project, presented progress to the Audit Committee, obtained external advice and made progress in some key areas e.g. leasing. The Council will need to ensure it completes work in accordance with its project plan, enabling early audit review, and ensure implications of International Accounting Standard 16: Property, Plant and Equipment (IAS16) are fully addressed eg component accounting.

77 My team will work with the Council's finance team to discuss early accounting views, where required, and share good practice from other councils.

The abolition of the Audit Commission

78 On 13 August 2010 the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

79 My priority is to ensure that my team and I maintain our professional standards and commitment. The Audit Commission's Managing Director of Local Government and Community Safety has written to the Chief Executive to confirm there is no immediate change to the audit arrangements for the Council.

80 The Audit Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that will need to be worked through. The Department is keen that the Audit Commission's in house practice will continue in the future and is looking at how a new stand alone organisation could be formed. I will keep the Council informed about the future audit programme and any changes to audit arrangements.

Future developments

Education

81 In July 2010, the Secretary of State for Education announced the end of the Building Schools for the Future investment programme. In Brent, this affected three schools that had been earmarked for investment. This remains a key risk area for the Council who need to redevelop or build schools in order to meet the demand for places within the Borough.

Civic Centre

82 The Council plans to bring together its services, which are spread across 14 buildings in the borough, in a new civic centre near Wembley Stadium. The plans were approved by the Council's Planning committee on 16 March 2010. Skanska have been recently named as the selected contractor to build the new civic centre. Construction is planned to commence in November 2010. The civic centre, the centrepiece of the regeneration of Wembley, will bring together council departments from the Town Hall, Brent House, Chesterfield House, and Mahatma Ghandi House. It will include a 1,000 capacity community hall, a library, two cafes, a shopping area, and council offices and committee rooms. The successful delivery of this plan is essential to the medium term plans of the Council. The civic centre is planned to be ready for occupation in June 2013.

Closing remarks

83 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 16 December 2010 and will provide copies to all committee members.

84 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
Audit Opinion Plan	February 2010
Annual Governance Report	September 2010
Opinion on financial statements	September 2010
Value for Money Conclusion	September 2010
Opinion on Whole of Government Accounts	October 2010
Human resource follow up review	January 2010
Performance management follow up review	March 2010
Improvement and efficiency strategy review	August 2010
Health inequalities review	September 2010

85 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Andrea White
District Auditor

November 2010

Appendix 1 Audit fees

Council Audit	Actual	Proposed (Note 1)	Variance
Financial statements and annual governance statement	362,000	347,000	15,000
Value for money	123,000	123,000	
Total audit fees	485,000	470,000	15,000
Foundation school arrangements review	12,500	0	12,500
Certification of grant claims	tbc	85,000	

Pension Fund Audit	Actual	Proposed (Note 2)	Variance
Financial statements and related notes	38,000	35,000	3,000

Note 1: The proposed fee is as reported in my 2009/10 Audit Opinion Plan in February 2010.

Note 2: The proposed fee is as reported in my 2010/11 Audit Fee Letter in June 2010 following a review of fee scales for Pension Funds.

tbc = to be confirmed

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 Action plan

Recommendations	
Recommendation 1	
Improve year end financial reporting arrangements across the Council.	
Responsibility	Deputy Director of Finance
Priority	High
Date	31 March 2011
Comments	<p>Year end arrangements are being reviewed to ensure that improvements are made and faster closedown is achieved. Although 2010/12 will present challenges because of the introduction of centralised oracle process and IFRS, improvements identified will include:</p> <ul style="list-style-type: none">■ a more robust and comprehensive approach to month-end closing processes;■ a 'hard close' based on month 9 to enable both testing of processes and early auditing; and■ a detailed Action Plan to improve year end arrangements with clear milestones and accountabilities.
Recommendation 2	
Strengthen risk management, internal control and performance management arrangements in respect of foundation schools.	
Responsibility	Director of Children & Families
Priority	High
Date	31 March 2011
Comments	<p>The schools environment is changing with greater plurality of models, each necessitating a robust approach to risk management, controls and performance arrangements. School heads received a briefing from the Director of Finance on 29 November 2010 and the AD (Children and Families) will begin a review in January 2011, concluding by March and involving consultation with schools.</p>

Recommendation 3

Embed good procurement practice across the Council.

Responsibility	Director of Legal & Procurement
Priority	High
Date	Ongoing
Comments	<p>Delivery of this 'One Council' project is a key priority for the Council and is ongoing. Actions taken so far include:</p> <ul style="list-style-type: none">■ the appointment of a new Interim Head of Procurement and Chief Negotiator with commercial experience;■ the implementation of Oracle Financials including procurement. This incorporates three-way matching, centralised procurement and AP and supplier management and is being rolled out across LB Brent; and■ use of internal communications channels to promote effective procurement. <p>In the future, we expect to see include:</p> <ul style="list-style-type: none">■ changes in internal behaviours to embrace Oracle processes and maximise the return in this software;■ a category management approach to procurement underpinned by a robust procurement strategy;■ a review of existing contracts to extract maximum cost savings;■ a change to the way in which contracts are re-negotiated. This will mean negotiations on major contract being led by the commercially orientated Chief Negotiator and not by those responsible for day-to-day contract management; and■ improvements in contract monitoring and management.

Recommendation 4

Embed good risk management arrangements across the Council.

Responsibility	Director of Finance & Corporate Services
Priority	High
Date	31 March 2011
Comments	<p>We will be undertaking a review of risk management process across the Council. As part of this, risk management will transfer to Internal Audit & Investigations as part of strengthening of Council's arrangements and ensuring a stronger linkage.</p>

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November 2010

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Progress Report

December 2010

Brent London Borough

Audit 2009/10

Audit Committee 16 December

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Status of our reports

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Summary

Introduction

1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress

2 Our 2009/10 audits of the Council and its Pension Fund are complete. The 2009/10 Annual Audit Letter was agreed with the Chief Executive and Director of Finance and Corporate Resources. This is included on the Agenda for the Audit Committee's consideration. This summarises audit for the 2009/10 year.

International Financial Reporting Standards

3 We have summarised the International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

International Financial Reporting Standards: Reporting on operating segments (October 2010)

4 The latest technical briefing paper in our series on implementing International Financial Reporting Standards (IFRS) in local government is 'Reporting on operating segments: Countdown to IFRS in local government'. The paper covers principles and practical issues that authorities should consider when reporting on operating segments, and addresses the following questions:

- What are operating segments?
- Which operating segments should be reported separately?
- When can segments be aggregated?
- What are the required disclosures?
- What lessons can local authorities learn from the NHS experience?
- What issues do local authorities need to consider?

5 We hope that this briefing paper will help local authorities and their finance teams to undertake preparatory work for the transition to IFRS, including work on the restatement of prior year accounts and skeleton accounts for 2010/11.

International Financial Reporting Standards: Progress on the transition to IFRS (October 2010)

6 We report on the progress of local government's transition to IFRS.

7 The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local

government to manage a major change in its financial arrangements. We hope this briefing paper will help support the transition to IFRS in local authorities.

8 The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS.

9 In this paper we:

- make comparisons with a baseline assessment taken in November 2009;
- set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
- outline the key actions that authorities should be taking at this stage.

Recent Audit Commission announcements and publications

10 The Audit Commission produces a regular Councillors' Update. This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work. If you have not automatically received your copy of Councillors' Update, please subscribe via the following link: [Councillor Update newsletter - Audit Commission](#)

Opinion on the 2010/11 financial statements (October 2010)

11 In 2009 the audit profession completed a comprehensive project to enhance the clarity of International Standards on Auditing (ISAs). This is known as the Clarity Project. The new clarified framework will apply to the audit of your 2010/11 financial statements. The main changes that you will see relate to:

- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal controls.

12 Further details of the changes are set out in the full report.

13 There are also revised templates for a joint accounts working protocol and working paper requirements which have been made available. We will seek to agree these with the Council in January 2011. This has been attached at appendix 3.

Financial management of personal budgets (October 2010)

14 This report examines personal budgets in adult social care and considers the financial management and governance implications for councils.

15 It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications.

16 It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

17 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement

Protecting the public purse (October 2010)

18 In our report Protecting the public purse: fighting fraud against local government and local taxpayers, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify more fraud risks and urge local councils and related bodies to focus on them

19 Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.

20 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

Appendix 1 – Key Deliverables 2009/10

Table 1 Progress on Key Deliverables for 2009/10

Product	Timing	Current position
Planning		
Audit Plan	January 2009- March 2009	Plan presented to Audit Committee in June 2009
Opinion		
Work on financial systems	December 2009 – June 2010	This complete. We have completed out Opinion plan and presented to Audit Committee in March 2010
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2010	This is complete, and our Annual Governance Report (AGR) was presented to the September Audit Committee.
Use of Resources		
Health Inequalities phase 1 phase 2	May 2010 October 2010	Phase 1 complete and report issued Phase 2 complete and report issued
Performance management follow up	June 2009 to December 2009	Review complete and report issued
HR follow up	December 2009 to February 2010	Review complete and report issued
Project management review	January 2009 to March 2010	Review complete and report issued
Value for money conclusion	June 2010 to September 2010	Our draft unqualified opinion is included in the AGR
Use of resource judgements	February to July 2010	This work was stopped based on the new government's direction

Appendix 2 – Key deliverables 2010/11

Table 2 Progress on Key Deliverables for 2010/11

Product	Timing	Current position
Planning		
Audit Plan	January 2010- March 2010	Plan presented to Audit Committee in June 2010
Opinion		
Work on financial systems	December 2010 – June 2011	
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2011	
Use of Resources		
Building schools for the future		This will not take place as a result of the government cancelling the Brent projects.
Project management review		
Value for money conclusion	June 2011 to September 2011	
Use of resource judgements	February to July 2011	This is no longer applicable.
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 3: 2010/11 audit - changes you can expect to see

Purpose of this document

21 As your appointed auditor, the audit of the financial statements I deliver to you, are governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

22 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

23 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

24 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

25 In summary the main changes you will see cover:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Group Accounts; and
- Reporting deficiencies in internal control.

Impact of the main changes

Journals

26 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as

CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related Party Transactions

27 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

28 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Group Accounts

29 ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. Because of the changes, you will see an increase in communication between yourselves, me and other entities within the group. I will also need to know:

- the controls involved in the group, for example, accounting policies used or how you manage different year ends;
- what is involved in the consolidation process; and
- whether any other auditors are used to audit part of the group.

Deficiencies in internal control

30 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

31 If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee [tailor as appropriate] as those charged with governance.

DRAFT

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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