

Annual Governance Report

London Borough of Brent
Audit 2009/10
As at 17 September 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Finance and Corporate Resources on 15 September 2010. I expect to issue a final version once my audit work has been fully concluded.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 13);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Andrea White
District Auditor

17 September 2010

Key messages

This report summarises the findings from my 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in the use of your resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	8
Financial statements free from material error	No	9
Adequate internal control environment	Yes	10
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	15

Audit opinion

- 1 My audit is substantially complete although there are some areas where I await further information before I can complete my testing. The areas outstanding relate to:
 - Housing Revenue Account;
 - Funds, balances and reserves;
 - Cash Flow Statement;
 - Statement of Total Recognised Gains and Losses;
 - Statement of Movement in General Fund Balances;
 - FRS17 disclosures;
 - Group Accounts;
 - receipt of external confirmations (mainly school bank accounts, Brent Housing Partnership's External Auditor and external property valuer);
 - clearing queries on largely completed areas of the audit (Housing, Environment, Private Finance Initiatives (PFIs) and Contingent Liabilities); and
 - our internal review and audit closure processes.
- 2 Subject to the satisfactory resolution of my testing, I expect to be in a position to issue an unqualified audit opinion by 30 September 2010.
- 3 Overall the audit has progressed well, with good responses from officers and robust working papers prepared by the Council. However, we have experienced delays in

finalising our audit work in the Adult Social Care and Housing departments due to poor working papers and slow responses to our queries in these areas.

- 4 I have considered the outcome of outstanding legal proceedings which prevented me from concluding my audit of the Council for 2007/08 and 2008/09. I have concluded these matters do not have a material effect on the 2007/08, 2008/09 or 2009/10 financial statements, and I do not propose to exercise my specific powers under the Audit Commission Act 1998. I am therefore expect to be in a position to certify the audits for all three years as closed once my audit work for 2009/10 is complete.

Financial statements

- 5 The draft financial statements were submitted for audit on 30 June 2010 in accordance with the agreed timetable. The financial statements were complete, but my audit identified errors which resulted in amendments being made to the main financial statements as detailed in paragraph 15. These errors do not change the reported surplus (subject to outstanding adjustments relating to the Housing PFI below). The material amendments are detailed below:
- Overall, the Council has responded well to the introduction of International Financial Reporting Interpretations Committee 12: Service Concession Arrangements (IFRIC12) by carrying out a thorough review of non-PFI arrangements which fall under IFRIC12 on a timely basis. This is the first year of accounting under IFRIC12 for local authorities. However, additional work has been required on the Housing PFI following audit queries raised with the officers. I have recently completed our audit of the revised model and await the revised accounting entries. I will update my report once this work has been completed.
 - The Council made £12.7m of bad debt write offs through the Collection Fund. This was incorrectly offset against income from council tax. The Local Government Statement of Recommended Practice (LG SORP) requires this to be disclosed as bad debt write offs under expenses.
- 6 In addition, further non-trivial changes were made as a result of audit findings, these are summarised in Appendix 2.

Value for money

- 7 I propose issuing a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate.

Audit fees

- 8 The fee for the audit is £470,000 as reported in our Opinion Plan in March 2010. I propose to increase the fee by £10,000 based on additional work required and delays on the PFIs and Housing and Adult and Social Care departments. I will keep this under review until I complete the audit.

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

10 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 14);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 11** My audit is substantially complete although there are some areas where I await further information before I can complete my testing. The areas outstanding relate to:
- Housing Revenue Account;
 - Funds, balances and reserves;
 - Cash Flow Statement;
 - Statement of Total Recognised Gains and Losses;
 - Statement of Movement in General Fund Balances;
 - FRS17 disclosures;
 - Group Accounts;
 - Receipt of external confirmations (mainly school bank accounts, Brent Housing Partnership's External Auditor and external property valuer);
 - clearing queries on largely completed areas of the audit (Housing, Environment, PFIs and Contingent Liabilities); and
 - our internal review and audit closure processes.
- 12** Subject to the satisfactory resolution of my testing, I expect to be in a position to issue an unqualified audit opinion by 30 September 2010.
- 13** Overall the audit has progressed well, with good responses from officers and robust working papers prepared by the Council. However, we have experienced delays in finalising our audit in the Adult Social Care and Housing departments due to poor working papers and slow responses to our queries in these areas.

Errors in the financial statements

- 14** The draft financial statements were submitted for audit on 30 June 2010 in accordance with the agreed timetable. The financial statements were complete, but my audit identified errors which resulted in amendments being made to the main financial statements. These errors do not change the reported surplus (subject to outstanding adjustments relating to the Housing PFI below). The material amendments are detailed below:

- Overall, the Council has responded well to the introduction of IFRIC12, and identified non-PFI arrangements which fall under IFRIC12 following their internal review. However, additional work has been required on the Housing PFI following audit queries raised with the officers. I have recently completed our audit of the revised model and await the revised accounting entries. I will update my report once this work has been completed.
- The Council made £12.7m of bad debt write offs through the Collection Fund. This was incorrectly offset against income from council tax. The Local Government Statement of Recommended Practice (LG SORP) requires this to be disclosed as bad debt write offs under Expenses. This has no impact on the reported surplus in the Collection Fund.

15 In addition, further non-trivial changes were made, these are summarised in Appendix 2.

16 I have also identified the following items, which the Authority have chosen not to make amendments for:

- the Willesden Leisure Centre PFI, includes a property brought into use four years ago. This has not been revalued or subject to an annual impairment review, because, in the past, the asset was accounted for off balance sheet under Financial Reporting Standard 5: Reporting the substance of transactions. This year the asset has been brought onto the balance sheet under International Financial Reporting Interpretations Committee (IFRIC) 12 (see table 1 below). To assess the impact, given the Council has not performed a valuation yet, we have applied property indices to estimate the change in value. This indicates an impairment of £3,741k. The Council is currently performing it's own revaluation of the property which we expect to review before concluding our audit;
- In the accounts, the Council has provided for £200k of expenditure to repair various leased properties to their original state in accordance with lease terms. Officers were unable to provide sufficient evidence to support this entry in the accounts.

17 These are detailed in Appendix 3.

Recommendation	
R1	Review accounting for PFI schemes to: <ul style="list-style-type: none"> address key points in the contract and asset delivery; and variations to the contract.
R2	Ensure all accounting entries and related disclosures comply with the LG SORP.
R3	PFI assets to be subject to: <ul style="list-style-type: none"> annual impairment reviews, and included in valuation cycle.
R4	Ensure supporting documentation is available to support all provisions, as required by FRS12.

Important weaknesses in internal control

- 18** I did not identify any significant weaknesses in your internal control arrangements, which had not already been reported to you. However, I identified a control weakness in the Adult Social Care department that I wish to bring to your attention. No monthly control account reconciliations took place during 2009/10.

Recommendation

- R5** Perform and review control reconciliations on a monthly basis in Adult and Social care.

Letter of representation

- 19** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Key areas of judgement and audit risk

- 20** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Introduction of International Financial Reporting Interpretations Committee (IFRIC) 12 to replace Financial Reporting Standard (FRS) 5 to account for Private Finance Initiatives (PFIs). London Borough of Brent has 4 PFIs (Brent Street Lighting, Willesden Sports Centre, Social Housing Facilities, JFS). There is a risk that PFIs are incorrectly accounted for resulting in material mis-statement.	There were an additional 2 agreements covered by IFRIC12 (Stonebridge and Vale Farm Sports Centre) identified by the Council. I have substantially completed my audit of the PFIs and agreements that require accounting under IFRIC12. This has resulted in errors, detailed at paragraph 17.
There is an increased risk of error from 'limited assurance' assessments by Internal audit (IA). Payroll, a key financial system, was assessed as limited assurance in the prior year. This risk reduces our ability to rely on controls testing, and increases the need to perform	The payroll review by IA provided substantial assurance in 2009/10. I have also considered the IA review of other key financial systems and have identified weaknesses in the following systems:

Issue or risk	Finding
substantive testing.	<ul style="list-style-type: none"> Children and Families services; and Treasury management. <p>In both, cases I have adopted substantive procedures to audit areas with identified control weaknesses.</p>
Irregularities at a local school highlighted limitations in previous governance and control arrangements over Foundation schools. The Council has responded by implementing new control arrangements, such as Internal audit reviews.	The 2009/10 IA report covered 30 schools (of 75), which were tested in year. There were 25 passes, 4 conditional passes and 1 fail. IA increased their remit by including foundation schools in their reviews. I have reviewed a sample of work. No errors have been noted, and this provides assurance over schools balances.
There is an increased risk that fixed assets are not valued appropriately, from our findings in 2008/09. The Council did not account for a downward valuation of £19.97m in accordance with the Local Government Statement of Recommended Practice (LG SORP).	<p>I have completed our review of the valuation and have identified a possible impairment. This is subject to final receipt of external confirmations (see paragraph 12).</p> <p>I am currently finalising my review of the accounting treatment of the valuation changes in 2009/10.</p>
The Council is required to complete a Whole of Government Accounts (WGA) return. This is so a consolidated set of accounts for the whole of the public sector can be prepared. The basis for consolidation in 2009-10 is expected to change from UK GAAP to IFRS. Final guidance for accountants is expected in March 2010.	The Council completed its draft WGA return on the 31 August 2010. We intend to review and conclude our work by the 1 October.

Accounting practice and financial reporting

21 I consider the non-numeric content of your financial reporting. I have noted various disclosure errors and omissions in the accounts presented for audit. I have agreed following amendments to the draft financial statements with the Authority:

- Accounting policies amended to include:
 - detail to allow the user to under options (e.g. optional methods to calculate Minimum Revenue Provision) chosen by the Council in accordance with the Local Government Statement of Recommended Practice (LG SORP);

- changes in accounting practice for NNDR and Council tax, where the Council now considered to act as an agent per the LG SORP;
- amortisation and useful economic lives of intangible assets
- additional disclosures to explain changes to comparators because of the change in accounting practice for NNDR and Council tax;
- increase in numbers (5) of officers receiving remuneration in excess of £50k;
- increase payments due within 1 and 2-5 years for operating leases by £1,394 and £1,909k respectively;
- impairment disclosure providing a note on significant impairments during the year, including relevant assets, value and nature of impairment;
- removal of the £650k compensation claim made by L&B Holdings and addition of guarantee of Jewish Free School PFI to contingent liability disclosures;
- disclose a post balance sheet event for legislation changing the basis for measuring public sector pensions, under FRS17: Retirement Benefits, from the Retail Price Index to the Consumer Price Index;
- clarification of financial instruments disclosure with additional detail required to address LG SORP requirements;
- amend other minor disclosures, including;
 - to make narrative disclosures between the foreword, primary statements and notes to the financial statements consistent; and
 - minor presentational amendments for consistency throughout the financial statements.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 22** I assess your arrangements to secure economy, efficiency and effectiveness in the use of resources your against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 23** The Authority has adequate arrangements in place for its use of resources. During the course of my audit I noted the following strengths:
- the Council has a clear focus on delivering efficiencies through its Improvement and Efficiency Action Plan and has successfully met government targets;
 - strong member development arrangements are in place including cross party work and dedicated officer support;
 - recruitment and retention activities have been successful in addressing priorities and the Council has modernised recruitment through, for example, the introduction of an e-recruitment system; and
 - in the 2009 staff surveys 71% of respondents believe Brent is an equal opportunity employer and treat staff with fairness and respect.
- 24** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

- 25** A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

- 26** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 27** 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; and
 - whether they have been prepared properly, following the relevant accounting rules.

Qualified

- 28** The auditor has some reservations or concerns.

Unqualified

- 29** The auditor does not have any reservations.

Value for money conclusion

- 30** 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 resources.

Appendix 1 – Independent auditor’s report to Members of London Borough of Brent

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements and related notes of London Borough of Brent for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Resources and auditor

The Director of Finance and Corporate Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and

- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended

Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Resources and auditor

The Director of Finance and Corporate Resources’s responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in

the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Brent made

proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

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

Andrea White
District Auditor
Audit Commission
Millbank Tower
Millbank
SW1P 4HQ
[date]

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Bad debts written off Cr Council tax income	Reallocate bad debts written off to be correctly disclosed as expenditure in the Collection Fund	12,700	12,700		
To be updated	Adjustments arising from audit of Housing PFI scheme.				
Dr Expenditure Cr Creditors	Accounting for an unreconciled difference between the trial balance and financial statements of the Adult and Social Care department.	152			152
Dr Gross debit - NNDR Cr Other adjustments - NNDR	Correct disclosures in Collection Fund based on information submitted in NNDR grant claim (LA01)	90	90		
Dr Bad debt provision Cr Expenditure	Correct bad debt provision as methodology applied by Council, used the incorrect balance to calculate the provision	27	27		

		Income and Expenditure Account		Balance sheet	
Dr Prepayments Cr Land and Buildings	The Council has incorrectly classified lifecycle costs not yet incurred which are attributable to Willesden PFI	265	265		
Net impact on reported surplus		152			

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts affected	Value of error £'000
The Council has not been able to provide evidence of valuation or impairment review for the Willesden Leisure Centre. We have applied property indices to establish a possible overstatement in the year end balance.	Dr Impairment Cr Fixed assets	3,741
The Council has not been able to provide evidence to support some provisions. By their nature they seem reasonable, however without evidence we have limited assurance, therefore have to treat the balance as an uncertainty	Dr Provision Cr Expenditure (Housing)	200

Appendix 4 – Draft letter of representation

To: Andrea White
District Auditor
Audit Commission
Millbank Tower
Millbank
SW1P 4HQ

London Borough of Brent - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts, Group Accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the attached appendix.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
-

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There

has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For assumptions included in notes 13, 20, 24, 27, 28, 37 and 38, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

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

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

We confirm that it is the Council's intention to hold investments classified as long term for a period extending beyond 12 months after balance sheet date.

Signed on behalf of London Borough of Brent

I confirm that this letter has been discussed and agreed by the Council on 29 September 2010.

Signed

Name: Duncan Mcleod

Position: Director of Finance and Corporate Resources

Date

Signed

Name: Gareth Daniels

Position: Chief Executive

Signed

Name: Emad Al-Ebadi

Position: Chair of Audit Committee

Date

Appendix 5 – Value for money criteria

KLOE	Met
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	-
Strategic asset management	Yes
Workforce	Yes

Natural Resources' applies to all bodies, other than ST & CCs (including London Borough of Brent) in 2009/10.

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
9	Review accounting for PFI schemes to: <ul style="list-style-type: none"> address key points in the contract and asset delivery; and variations to the contract. 	3				
9	Ensure all accounting entries and related disclosures comply with the LG SORP.	2				
10	PFI assets to be subject to: <ul style="list-style-type: none"> annual impairment reviews, and included in valuation cycle. 	3				
10	Ensure supporting documentation is available to support all provisions, as required by FRS12.	2				
10	Perform and review control reconciliations on a monthly basis in Adult and Social care.	2				

Deleted: Appendix 3 –
Unadjusted misstatements in
the accounts

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