

Progress report

February 2011

Brent London Borough

Audit 2010/11

Audit Committee 22 February 2011

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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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

- we have agreed our Opinion Plan for the Council and its Pension Fund with officers for 2010/11. We have included extracts of our standard letters to the Director of Finance and Chair of the Audit Committee to address auditing standards on fraud, internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This is included on the agenda for the Audit Committee;
 - we have agreed a detailed timetable for the audit with the Authority. Our interim audit commenced on the 4 January. We have included key findings as at 21 January for the Audit Committee; and
 - The Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation had been delayed. This consultation was subsequently launched on 10 December 2010 and the closing date is 7 January 2011. This proposes a rebate of 3.5 per cent to the 2010/11 fee and introduces a scale fee of £439,200 for 2011/12 (2009/10 audit fee: £497,500).
- 2 Appendix 1 shows details of all outputs planned in respect of 2010/11.

International Financial Reporting Standards

3 There have been no new International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

4 We have completed a survey for the Audit Commission assessing the IFRS progress at the Authority. We have assessed the Authority as red (green, amber or red). Red is assessed as 'Not on track' or 'Significant issues'. This assessment is based on:

- Deliverables not complete by target dates; and
- Constraints on capacity of relevant staff.

5 We have summarised progress to date against the project plan:

Item	Due date	Complete	Revised due date	Comments
Restatement of opening balances	31 March 2010	Part	-	This review is underway. Our findings to date are largely positive, however review school leases and component accounting by the Council remains outstanding.
Review of PFI/IFRIC12 for 2009/10 accounts	30 June 2010	Yes	-	We have audited this as part of our opinion work for 2009/10. No material amendments identified, however some recommendations made.
Restatement of 2009/10 balances including: <ul style="list-style-type: none"> ■ Accounting policies; and ■ Draft financial statements. 	31 December 2010	Part	February 2011	The Council are currently working on the restatement of the 2009/10 balances. We received a copy of the Council's draft IFRS accounting policies in February 2011 but have yet to perform our review of these.

6 We have documented progress by the Council against key areas for consideration against IFRS. We are in the process of reviewing this. This is summarised in the table below:

Item	Completed by Council	Comments
Non-current assets	Part	A draft policy on component accounting was produced by the Council on 27 January 2011. The Council is due to commence its property revaluation work shortly.
Leases	Part	A review of internal leases has been completed by the Council. The Council is currently obtaining information regarding school's leases to enable the Council to perform its review of these items.
Employee benefits	Yes	This has been completed.
Segmental reporting	Yes	We received a copy of the Council's draft segmental reporting paper in February 2011 but have yet to perform our review of this.
Government grants	Yes	This has been completed.
Group accounts	Part	The Council are currently working on their review of group accounting matters. This has yet to be finalised as the Council are awaiting the finalisation of guidance in this area.
Other	Part	We have seen progress on areas such as cash and cash equivalents, however other key areas remain outstanding such as disclosures.

7 At present, we appreciate the Council is dealing with challenges and conflicting priorities, not least:

- revisiting short and medium term budgets to address reduced funding in the future;
- changes to its key financial systems; and
- reductions in finance staff numbers.

8 Based on good work performed, introducing International Financial Reporting Interpretation Committee 12: Service Concessions (FRIC12) and capability of Council officers involved, we believe the Authority can successfully implement IFRS. However, failure to take action to prioritise the remaining work required increases the risk of not meeting statutory deadlines and additional fees required to perform our audit.

Interim audit

9 We have detailed key findings to date from our interim audit as at 21 January 2011. We commenced our onsite visit on the 4 January 2011.

10 We are advanced in our work covering the following areas:

- General ledger;
- Accounts receivable;
- Accounts payable;
- cash and bank;
- Treasury management;
- Council tax;
- NNDR;
- Housing rents; and
- Housing benefits.

11 We have identified the following matters, and will include these in our interim report:

- Control account reconciliations:
 - the Council's arrangements have undergone a significant change as part of the move to a new financial system in September 2010. This has involved the migration of data from a number of previous systems. As part of the transition the Council is moving to more centralised arrangements for maintaining some of its key control account reconciliations. The current status of these is set out below:

Area	Status
Accounts receivable	Migration of old bank accounts completed and reconciliation in progress for period September to December 2010.
Accounts payable	Reconciliation completed up to November 2010.
Bank (including loans and deposits)	Reconciliation in progress for period September to December 2010 (currently 84% complete).
Council tax	Reconciliation in progress for period September to December 2010.
NNDR	Reconciliations in progress for period September to December 2010.

- Accounts payable:
 - new supplier accounts are set up without managers checking details to supporting documentation;
 - during the transitional period following the move to the new financial system purchase orders have been raised retrospectively after invoices have been received;
 - the Council has entered into a pilot arrangement with an outsourced scanning bureau as a transitional arrangement until the Council is ready to finalise its specification requirements and enter into a formal contractual arrangement. The Council is monitoring the performance of the scanning bureau and is sample checking a number of transactions. However, the Council should consider more formalised arrangements for obtaining assurance over the controls and processes with the bureau;
 - preliminary payment run reports with evidence of senior officers review are not always retained by the Council; and
 - BACS payments of more than £50k have been approved by one authorised officer instead of two authorised officers as required by the Council's procedures.

12 As a result of the matters identified, there is an increased possibility of errors taking place and a limit on our ability to obtain controls assurance. Controls testing is more efficient than substantive testing. Therefore, we will assess the work we will need to perform in the summer once our interim work is complete. In addition, we will need to consider how we can gain assurance over the controls and processes within the outsourced planning bureau. If additional work is required, we will discuss the estimated additional fee with the Director of Finance.

13 As at 21 January 2011, we still needed to perform our systems work covering fixed assets, payroll and pension fund systems.

Looking Ahead

14 We have previously advised you of the proposal of the Secretary of State for Communities and Local Government (CLG) to abolish the Audit Commission.

15 The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation. Ministers have said that the Commission's Audit Practice is to be transferred to the private sector.

16 This represents an exciting opportunity for us. We are already exploring a number of potential options, including mutualisation as an employee owned partnership. We anticipate the proposed move to the private sector, independent of Government, will provide us with a groundbreaking opportunity to continue to thrive and develop our practice.

17 Throughout this process we will remain committed to providing excellent service to our clients. Further to this, CLG have assured Foundation Trusts that any contracts awarded to the Audit Practice will be honoured in full. In an open letter providing assurance to Foundation Trusts, CLG states: "the Government would like to reassure those foundation trusts that have or are considering contracts with the Audit Commission's Audit Practice that those contracts will be honoured in full."

18 Please contact Andrea White, your District Auditor, if you would like a copy of this letter.

19 To assist Ministers as they consider the options for transferring the practice to the private sector, we are developing plans to form a mutual business. Neil Childs, Director of Audit, says: "Mutualisation would enable us to continue to offer you a distinctive alternative to the big firms. We will continue to provide you with unrivalled expertise in public audit and advisory services, focused on the challenges you face, at competitive fees".

20 We expect Ministers to make a decision in principle over the exact form of the transfer of the audit practice to the private sector in Spring of 2011.

Recent Audit Commission announcements and publications

21 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](#)

Auditing the accounts 2009/10

22 The Audit Commission's report, [Auditing the Accounts 2009/10](#), summarises the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.

23 The report covers:

- auditors' work on the 2009/10 financial statements;
- the results of auditors' 2009/10 local value for money work;
- the public interest reports and statutory recommendations issued by auditors since December 2009; and
- the key financial management and financial reporting challenges for 2010/11.

24 The report congratulates seven councils, one police authority and three local government bodies for early publication. There is great interest in financial transparency by public bodies at the moment and we believe that early publication of audited accounts is an important contribution to openness and accountability.

25 The Commission reports that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils (2 per cent of the total) and 11 local government bodies (12 per cent). The report also names two councils where the auditor gave a qualified opinion.

26 All police authorities and fire and rescue authorities published their audited accounts by 31 October and none received a qualified audit opinion.

Consultation on proposed work programme and fees

27 The Audit Commission is consulting on its proposed work programme and scales of fees for 2011/12. The announcement made on 13 August 2010 proposing the Commission's abolition implies (although it has still to be confirmed) that 2011/12 may be the Commission's final year in its current form. If so, this will be the last time it will publish a work programme and set scales of audit fees.

28 The Commission proposes to carry through its existing, pre-August, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. These involve fee rebates for 2010/11 and lower fees for 2011/12.

29 The [proposed work programme and scales of fees for local government, housing and community safety \(PDF, 298kb\)](#) consultation document proposes significant reductions in audit fees of between 5 and 20 per cent, reflecting both the new approach to local VFM audit work and a reduction in the ongoing audit costs associated with the introduction of IFRS. The [proposed scale of fees for each audited local government, housing and community safety body](#) are also available. In relation to 2010/11 fees, the Commission will rebate:

- 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities; and
- 3.5 per cent for single tier and county councils.

Audit Commission Annual Quality Report

30 In October 2010 the Audit Commission published the Annual Quality Report for its own Audit Practice.

31 The report – which can be found on the Audit Commission’s website - summarises the results of the quality review of the work of the Commission’s own staff as auditors to NHS and local government bodies. It also includes the views of the Audit Inspection Unit that carried out an independent review of our work.

32 The publication of this report is one of a range of measures aimed at demonstrating our commitment to delivering high quality audit work. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of our Audit Practice. The report also compares our Audit Practice with the major accountancy firms and the other audit agencies.

33 The headline message was that the quality of the audit practice’s work continues to meet professional standards and there has been a measurable improvement in quality compared with the prior year.

Appendix 1 Key deliverables 2010/11

Table 1: **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 statements	December 2010 - June 2011	Commenced 4 January 2011
Financial statements: <ul style="list-style-type: none"> ■ opinion; ■ Annual Governance Report; ■ opinion memorandum 	July 2011 - September 2011	
Value for money		
Project management review		
Value for money conclusion	June 2011 - September 2011	
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 2 Letter to the Chair of the Audit Committee

Audit of London Borough of Brent and its Pension funds Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behavior; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) What those charged with governance consider to be the most high risk posts, from a fraud and corruption perspective, within the organisation, and how the risks relating to those posts are identified, assessed and managed.

4) Whether those charged with governance:

- are satisfied that internal controls, including segregation of duties, exist and work effectively;
- have knowledge of any actual, suspected or alleged frauds; and
- are aware of any related party relationships or transactions that could give rise to instances of fraud.

5) How you gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter (or e-mail), by 30 April 2011 will suffice. Please contact me a-white@audit-commission.gov.uk or Paul Viljoen p-viljoen@audit-commission.gov.uk if you wish to discuss anything in relation to this request.

Appendix 3 Letter to the Director of Finance

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In order to comply with a number of International Standards on Auditing I am required to obtain an understanding of the following:

- 1) Management processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behaviour; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) Management's awareness of any actual or alleged instances of fraud.
- 3) How management gain assurance that all relevant laws and regulations have been complied with.
- 4) Whether there is any potential litigation or claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as the Director of Finance will suffice.

Please contact me at p-viljoen@audit-commission.gov.uk if you wish to discuss anything in relation to this request.