

Final Accounts Memo

London Borough of Brent and Brent Pension Fund

Audit 2009/10

December 2010

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.

Contents

Summary report	2
Introduction	2
Background.....	2
Main audit findings.....	2
Next steps.....	3
Detailed report - London Borough of Brent.....	4
Introduction	4
Internal control weaknesses	4
Post statement audit.....	5
Detailed report - Brent Pension Fund	17
Appendix 1 Audit Findings reported to those charged with governance..	16
Appendix 2 Action Plan	18

Summary report

Introduction

1 This reports details findings from the 2009/10 financial statements audit that were not significant enough to include in our Annual Governance Report (AGR), or were not reported in detail to the Audit Committee. The reported matters would still benefit from action by the Council. This would improve the quality of next year's accounts.

2 The report is prepared for management and is in addition to our earlier AGR. Separate sections of the report are used to detail the findings from the London Borough of Brent and Brent Pension Fund audits.

Background

3 The Accounts and Audit Regulations 2003 require Local Authorities to prepare a statement of accounts in accordance with proper practices (CIPFA Statement of Recommended Practice (SoRP)).

4 We are required by the Code of Audit Practice to give an opinion on whether the Council's accounts give a true and fair view of:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of the Pension Fund for the year and the amount of disposition of the fund's assets and liabilities at the year end, other than liabilities to pay pensions and other benefits after the end of the scheme year.

5 Our London Borough of Brent opinion covers the following statements:

- Income and Expenditure Account;
- Balance Sheet;
- Cash Flow Statement;
- Housing Revenue Account;
- Collection Fund;
- Group Accounts; and
- Supporting notes to the statements.

6 Our Brent Pension Fund opinion covers the following statements:

- Pension Fund Statement; and
- Supporting notes to the statements.

7 In addition we issue an opinion on the Whole of Government Accounts consolidation pack.

Main audit findings

8 The most significant findings were reported to those charged with governance in our AGR. These are detailed in appendix 1.

Next steps

9 In conducting this audit, we identified opportunities for the Council to improve its internal controls and financial reporting. The action plan, included as appendix 2 to this report, sets out recommendations to support improvement.

10 We would like to take this opportunity to thank the Council officers for the assistance provided over the course of the audit.

Detailed report - London Borough of Brent

Introduction

11 This section covers:

- internal control weaknesses; and
- matters arising from our post statement audit work.

Internal control weaknesses

12 The following section details the findings and recommendations from our interim audit. Although these issues were not deemed of sufficient significance to report in detail to the Audit Committee they do represent opportunities for further streamlining of the audit of the accounts. This is because robust and well evidenced controls allow us to gain assurance over the financial statements at an early stage, thereby reducing testing during the year-end audit.

13 We perform a walkthrough of one transaction in order to assess whether documented processes and controls are in place. We noted the following weaknesses:

Adult Social Care

- no formal system in place for raising purchase orders;
- monthly control account reconciliations were not prepared for accounts payable or accounts receivable;
- no monthly reconciliation between Abacus and Oracle, this had to be done retrospectively post year end;

Children & Families

- no central record kept of queries raised with People Centre regarding payroll data. This could lead to issues being unresolved or not followed up;
- bank reconciliation shows large reconciling balances between cashbook and bank account, which raises concerns over the timeliness of matching receipts and payments in the bank and cashbook;

Housing

- monthly debtor and creditor control account reconciliations had not been occurring for April to November;

Housing Benefits

- internal quality control checks over change in circumstances indicated a high number of errors in recording the effective date of change which could lead to error in calculating and classifying overpayment periods;

Council Tax

- no clear record of council tax refund authorisation was available. Capita do not receive confirmation of authorisation, the only notification is

where authorisation is not given. This can lead to Capita processing refunds before the Council has reviewed them.

Recommendation

- R1** Operate formal procedures for raising all purchase orders.
- R2** Strengthen disciplines concerning significant system reconciliations. In particular, reconciliations should:
- be prepared monthly;
 - be evidenced as prepared and reviewed; and
 - clearly evidence how variances are followed up.
- R3** Maintain a log of queries raised regarding payroll data and ensure that these are resolved as part of the routine payroll production process.
- R4** Clear long standing reconciling items and uncleared cheques on main Children & Families bank reconciliation.
- R5** Review procedures to ensure that the correct effective date is used to calculate Housing Benefit claims following notification of changes in circumstances.
- R6** Confirmation should be given to Capita that Council Tax refunds have been reviewed and authorised, before taking place.
-

Post statement audit

14 The section below details the findings and recommendations from our final accounts audit.

Housing

- 15** The audit for the Housing service area was slow to complete due to:
- difficulties in agreeing service unit workbooks to the general ledger; and
 - obtaining breakdowns of our sample selected balances.
- 16** Whilst Housing has been consolidated into 4 service units we found the workbooks were made up of the combined balance of a number of general ledgers. Although this is acceptable there were no working papers to trace the relevant codes on the general ledger to entries in the workbooks. This had to be manually re-performed increasing the time spent on the audit.
- 17** Further work was required by the Council on agreeing the trial balance. The original query was raised on 30th July and was not resolved until a revised trial balance for Housing Central Finance General Fund service unit was provided to the audit team on 27th September.

18 Over this period there were numerous versions provided before the final response was received. This led to an unadjusted error of £192k being reported in the AGR. Due to the timing of the matter being resolved, there was insufficient time to fully test the revised trial balance. As such, the auditing standards require the Audit Committee Chair to formally agree with management's basis for not amending.

19 Of the debtor balances tested one item for £1,499k could not be supported by a debtors analysis as at 31st March 2010. The balance could only be analysed at the current period and no record had been taken to support the balance as at year end. Alternative audit techniques had to be used to gain assurance over the balance, however in future we would expect the Council to retain evidence of all balances as at 31st March.

20 Delays were also experienced in turning around the audit queries. It took significant time to receive supporting documentation for selected samples, with problems including:

- tracking down where the supporting documentation was held; and
- being provided with insufficient evidence, therefore having to request further evidence.

Recommendation

R7 Ensure the Council retains clear evidence to support all balances. Transactions should be fully supported and evidence filed appropriately to allow officers to reproduce support promptly in response to audit queries.

R8 Provide a full audit trail between the general ledger to the accounts. This should be sufficiently detailed to include:

- details and evidence of any adjustments;
- identification of all relevant codes making up balances, and references in order to trace values between the general ledger and accounts;
- record of date the general ledger report was run;
- record of officer who prepared report; and
- evidence of internal quality review.

R9 Review debtor accounts for any balances which are supported by live systems. Ensure reports are run at year end to support account entries as at 31st March.

Children & Families

21 The level of supporting documentation held by the Council to support school balances was found to be insufficient to clear our initial audit queries. The Schools Finance Team retained the individual schools returns, but

there was no backing documentation to support returns or evidence of review of returns.

22 Whilst we understand the Council may not hold all records for schools transactions, we would expect there to be more evidence of review of the schools returns especially over large items of expenditure. In particular external schools payroll balance of £91,541k is a significant proportion of Children & Families expenditure and it would be useful for copies of the relevant payroll reports to be held by the Schools Finance Team, and consideration of internal and external audit assurance, where applicable.

23 The evidence for external schools payrolls was also a factor in our review of the Employees' Remuneration Note, which included School Staff remuneration. For external schools, this is based on schools return listing numbers of staff against each remuneration band. There is no indication of review of these returns to ensure they agree to schools payroll and records are complete.

24 We also experienced significant difficulty in obtaining bank confirmation for schools bank balances. Requests for confirmation were sent to all banks per the listing provided by the Schools Finance Team in May 2010. However, significant delays resulted from the process of banks obtaining permission from schools to release the details to ourselves. Many schools did not respond or agree for the banks to notify the audit team in accordance with bank processes.

25 The above matters led to significant delays in receiving sufficient evidence to support transactions. This was due to the response time of schools in providing information and the level of audit involvement required to resolve this.

26 Review of the main Children and Families bank reconciliation shows long standing reconciling items and uncleared cheques dating back to April 2008. These items came to a net total of £898k. We would advise long standing items are cleared on a regular basis.

Recommendation

R10 Implement a review of school returns to gain assurance over financial information provided. Evidence of reviews taking place should be clearly documented and can include:

- detailed review for a sample of all returns on a 3 year rolling basis;
- obtain evidence to support all significant balances;
- evidenced, detailed review of income and expenditure versus budget;
- comparative and ratio based analysis of outturn; and
- use of internal and external audit assurance.

R11 Obtain all external schools payroll reports to agree:

Recommendation

- schools payroll expenditure; and
- employees' Remuneration Note.

R12 Consider formally informing all schools of the requirement to allow banks to disclose information on schools bank accounts to the Council's auditor. Carry out an internal review to confirm all schools have acknowledged this information can be released.

Adult Social Care

27 Variances were identified between the trial balance and the annual accounts. Adjustments had been made between the ledger and accounts but there was no clear audit trail, explanation of what the adjustments were or why they had been made. There was a significant delay in providing an adequate explanation. The initial responses failed to resolve the matter.

28 The trial balance failed to accurately analyse debtor and creditor balances between specific categories. There are specific ledger codes for internal, external and government debtors and creditors, which did not agree to the balances disclosed in the accounts. We asked the Council to reconcile the ledger balances back to the accounts. This took several attempts as there was no clear audit trail.

29 The calculation of the bad debt provision was based on a debtor figure which was later revised in the final Adult Social Care workbook submission. Therefore the provision had not been based on the debtor balance disclosed in the accounts. The difference was immaterial, but highlights a weakness in the processes around calculating the bad debt provision.

30 The main problems arose due to changes to staffing in the Adult Social Care Finance Team. This indicated there was limited understanding of the processes involved in preparing the accounts and the remaining staff were unable to explain how entries to the accounts had been derived. The Council should ensure there are sufficient procedure notes and standard practices to minimise impact of staff changes.

Recommendation

R13 Ensure authorisation and review of transactions to strengthen the processes over coding transactions to the ledger. Where there are separate codes to identify internal, external and government balances the review should ensure these have been correctly use and follow up any miscoded items.

R14 Ensure bad debt provision at year end is based on current level of debtors.

Recommendation

R15 Establish formal policy and procedures for accounts closedown and material systems.

Collection Fund

31 There was a £12,700k material error in the treatment of Council Tax write-offs which was detailed in the AGR. Per the SORP, write-offs should be written off to expenditure. We found the Council had written these balances off by incorrectly debiting income.

32 A further minor difference was identified between the Collection Fund Account and the National Non Domestic Rates claim. This had nil impact on amount payable to the national pool, but may have been avoided with a cross referencing check between the Collection Fund Account and NNDR claim.

Recommendation

R16 Ensure treatment of Collection Fund write-offs are in line with SORP guidance.

R17 Review Collection Fund Account to final or latest version of NNDR claim.

Housing Revenue Account

33 Service charge had been incorrectly allocated to Dwelling Rent income. This led to an amendment which correctly allocated the charges to Charges for Services and Facilities income.

Recommendation

R18 Review entries on the HRA ensuring balances have been correctly allocated in accordance with the SORP.

Tangible Fixed Assets

34 In 2009/10 the Council obtained a property valuation of one of its offices, Brent House, from an external property valuer. Our audit procedures require us to satisfy ourselves that work carried out by experts to support any accounting entries is acceptable. This includes any work performed by property valuers. We were not made aware of Council's intentions to use

this external property valuer during the planning stage of our audit. This led to delays in obtaining the necessary assurance that we required to satisfy ourselves that we could rely on the work performed.

35 No other significant matters were noted in the audit of tangible fixed assets. There was a good audit trail for capital items including depreciation and revaluation entries, and supporting documentation was of appropriate standard.

Recommendation

R19 Provide a full list of all external valuers used, relevant to the audited year, for our confirmation and review procedures.

Leases

36 An amendment was made to the accounts for the analysis of future payments the Council is committed to make. This error arose as the wrong balances had been selected from the Council's working papers to enter into the accounts.

37 For our testing, the Council provided a list of all leases detailing the start and end dates of each lease. We found this working paper included leases, which had expired before 2009/10. Although testing found these leases were still in operation, leases had not been formally renewed and documentation to support ongoing leases was of varying standards.

38 We recommend the Council ensures their working papers are fully up to date and, where leases are currently under renewal or are not supported by a renewed agreement, they have identified these leases and can fully support their continued disclosure as operating leases.

Recommendation

R20 Review listing of all leases to ensure start and end dates agree to supporting documentation.

R21 Leases disclosed in the accounts should be evidenced with supporting documentation to show:

- Start date and term of lease;
 - Annual lease payment;
 - Name of lessee and lessor.
-

PFI

39 The Council is party to four PFI arrangements and two service concession arrangements. Overall the assessment and calculation of the arrangements and the disclosures in the accounts were overall of a good standard. However testing resulted in a number of amendments as detailed in appendix 1.

40 Going forward it is important for the Council to perform regular reviews of these arrangements and any new arrangements to ensure:

- PFI assets are re-valued in line with the Council's revaluation policy. It is good practice to revalue assets as soon as they become operational;
- Where PFI assets are being delivered on a phased basis ensure assets are accounted for as they are completed;
- Lifecycle costs have actually occurred and have been correctly accounted for.
- The Council is aware of any contract variations which may impact on the models.

Recommendation

R22 Carry out regular reviews of PFI and service concessions to identify any new arrangements or changes to existing conditions. In particular review:

- Basis for lifecycle costs;
 - Impact of any contract variations;
 - Revaluation of assets especially new schemes;
 - Schemes where assets are delivered on a phased basis to ensure these are accounted for in the correct periods.
-

Loans & Investments

41 We are required to obtain external confirmations for all loans and investments as at 31 March. All confirmations were received prior to the accounts deadline, but there were delays in some responses from third parties.

42 At present we receive a listing of all Council outstanding loans and investments post year end, detailing the organisation name and transaction amount. To aid this process it would be useful to receive this information promptly post year end and for the contact details to include a contact name and number.

43 From experience, organisations often do not respond until they are verbally contacted. Having full contact details in advance will save both the Council and the Audit Team from searching for this information during the audit, and speed up response times.

44 Our review also covered the current position on Icelandic investments and the Council's response to CLG guidance on potential impairment. The Council should ensure they evidence their treatment, where this is based on advice from the CLG it should include evidence that the Council have considered all the relevant information in coming to any decision and can support their treatment.

Recommendation

R23 Provide a full listing of loans and investments outstanding at year end. This should be provided to the audit team by 30th April and detail:

- name of organisation;
- amount of transaction; and
- contact name, address and telephone number.

R24 Evidence treatment of Icelandic investments and Council's review of guidance and legal advice to support disclosure.

Provisions & Contingent Liabilities

45 There were delays in receiving suitable information to support provisions made in accordance with Financial Reporting Standard 12: Provisions, Contingent Liabilities and Contingent Assets. This indicated that some of the finance officers within service units had not checked and reviewed the working papers and evidence to support the provisions and disclosures in the accounts.

46 A contingent liability was settled in between 31 March 2010 and the conclusion of our audit. This was for costs and compensation to the claimant based on rights over land. We agreed with the Council to remove the liability and account for the costs as a provision at 31 March 2010.

47 The Council have a large contingent liability disclosed for HR matters. There was no working paper to evidence this when requested. This was subsequently prepared. However the Council need to ensure robust working papers are prepared regularly, to assess the item against the criteria of FRS12: Provisions, Contingent Liabilities and Contingent Assets (FRS12).

48 We raised a number of recommendations to increase disclosure of contingent liabilities. The disclosure requirements of FRS12 require the following:

- an estimate of its financial effect, measured in accordance with [paragraphs 36-55](#) of FRS12;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

49 The Councils' legal department provide summary of all ongoing cases, which may be contingent liabilities or provisions. These have been included in the financial statements, where appropriate. However, we identified a lack of review by finance staff as certain items included probabilities of loss or settlement outside of those stipulated in FRS12 for the relevant liability classification. However, the Council were able to provide further evidence to support the initial classification for the items we queried.

50 As part of assessing completeness of liabilities, we review the legal costs incurred by the Council. These were not readily available and not reviewed by the legal department.

Recommendation

R25 Review all provisions at year end to supporting documentation.

R26 Review all provisions and contingent liabilities to the relevant recognition criteria in FRS12.

R27 Ensure disclosures for provisions and contingent liabilities meet requirements of FRS12.

R28 Ensure that legal review of potential liabilities is jointly considered by legal and finance officers in determining accounting treatment.

R29 Prepare and review all legal costs of the Council for possible undisclosed legal matters.

FRS17 Retirement Benefits

51 An amendment was required on the accounts for Past Service Costs, which had not been included in the Net Cost of Services on the I&E Account.

Recommendation

R30 Ensure that the accounts for all retirement benefit amounts are included in the accounts in accordance with FRS17 and the SORP.

Financial Instruments

52 The draft statements did not include the required disclosures in the Financial Instruments Note in line with the SORP guidance. The Council had trouble identifying the entries to be included in the accounts, a matter that was unresolved until the 30 September 2010.

53 Extracts from the SORP and examples from other Councils were provided to aid in the completion of this note. This is a clear area for improvement and should be prepared early to ensure the Council meet the SORP requirements, or flag up problems early.

Recommendation

R31 Ensure compliance with the SORP when preparing the Financial Instruments Note.

Other Matters

54 Our initial review identified a number of text disclosure errors, the main type of errors have been detailed below:

- cross referencing and consistency issues;
- disclosure of PPAs through using "restated" heading for relevant notes; and
- full compliance with all disclosure requirements.

55 On the I&E Account interest paid had been incorrectly included in Central Services expenditure. This should be shown below Net Cost of Services and allocated to Interest Paid.

56 The Employees' Remuneration Note had omitted five officers whose remuneration and redundancy payments were over £50,000. The Council had run a listing of all staff receiving over £40,000 and compared with redundancy payments in the year. As redundancy payments were up to and including £30,000 the payroll report parameters should have been set up to cover all possible remuneration and redundancy combinations up to £50,000. We would recommend an additional report for total remuneration of staff with a redundancy payment of £10,000 and over.

57 Our audit includes the Brent Group Accounts. This means that the timing of the BHP audit impacts the Brent audit. It is therefore important that the BHP audit is signed off before 30th September, and this date could be brought forward to aid the delivery of the Council's own audit deadline.

58 There were no significant matters arising from the Environment and Finance and Corporate Resources audits. As a result, it could be useful for the Council to benchmark good practices across different service units to help improve the overall performance of the Council.

Recommendation

R32 Ensure a full review of the annual accounts is completed to ensure compliance with disclosure requirements of the LG SORP.

R33 Ensure Employees' Remuneration Note has been compiled taking

Recommendation

into account all relevant payroll and redundancy data. This should include coverage of any officers receiving redundancy payments to confirm total remuneration amount.

R34 Consider bringing forward Brent Housing Partnership audit signoff to allow sufficient time to review findings as part of the main London Borough of Brent audit.

R35 Share best practice arrangements for finance throughout the Council.

Accounts preparation and working papers

59 From experience we are aware that the devolved structure of the Council means that the quality of the information provided is variable in terms of depth of detail and adequacy of the audit trail and this is an area that needs to be improved in future years.

60 There were significant difficulties experienced during the audit in obtaining accurate audit trails and, delays in receiving supporting documentation at some service areas, notably Housing and Adult Social Care. A clear understanding of where entries in the service unit workbooks had come from was lacking at some service units, or could not be supported.

61 With the move to a more centralised finance unit we recommend the Council consider preparing a single central working paper file (either manually, or ideally electronically). This would help to:

- aid the Council's review procedures prior to approval of the accounts;
- assist both the Council and the audit team if key individuals are unexpectedly unavailable; and
- improve efficiency of the audit process.

62 Queries raised during the course of the audit were generally answered promptly, but some delays were experienced where supporting documentation was held externally, as detailed above under Housing and Children & Families findings.

Recommendation

R36 The Council should ensure the new centralised finance unit will be able to provide a full audit trail between the ledgers to the accounts. In particular:

- Knowledge of how balances have been derived should be shared across the finance team;
 - The reason for any adjustments between the ledger and the accounts should be evidenced clearly and authorised by senior
-

Recommendation

officers;

R37 Prepare a central working paper file for the accounts audit.

R38 Respond to all audit queries within agreed timescale of 2 days.

Detailed report - Brent Pension Fund

Introduction

63 This section covers:

- internal control weaknesses identified; and
- matters arising from our post statement audit work.

Internal control weaknesses

64 Table 2 details the findings and recommendations from our interim audit work on the pension fund. These issues represent opportunities to improve the pension fund's control environment.

We identified the following:

- Pension contributions and benefits payable administration functions are performed by the London Pension Fund Authority (LPFA); and
- Journal forms are not approved by senior officers as required by the Council's procedures.

Recommendation

R39 Obtain formal assurance from the LPFA that the agreed checks have been performed on contributions and amounts paid to pensioners.

R40 Arrange for all journals to be formally approved by officers.

Post statement Audit

65 The section below details the findings and recommendations from our pension fund final accounts audit. Some of the details were not deemed significant enough to report to the Audit Committee but they may be of use in preparing next year's accounts.

Accounts preparation and working papers

66 Some of the working papers and reconciliations prepared for the pension fund are detailed and complex.

67 Queries raised during the audit were generally answered promptly, but some delays were experienced in resolving queries relating to investments for the reasons set out in the investment section below.

Investments

68 The in-year reconciliation of between the quarterly investment reports and the pension funds accounting records are complex. During our testing detailed discussions with officers were needed, in addition to the supporting working papers, in order to be able to confirm that the details were correctly stated. We recommend that the Council ensures that their working papers clearly set out the details of investment opening balances, closing balances, sales, purchases and changes in market value so that there is a clearer audit trail to support the figures in the accounts. These procedures should be performed regularly during the year and at the year end.

69 In some cases we identified differences between investment values reported in reports from fund managers and the values reported by custodian. These were due to timing differences and differences in the basis used by fund managers and custodians to produce reports. We recommend that the pension fund should introduce its own procedures to ensure that the investment records reconcile and that the appropriate values are reported. These procedures should be performed regularly during the year and at the year end.

70 The pension fund accounts include a number of unquoted investments. There are risks around the accurate valuation of these investments at the year end. In 2009/10 the value of unquoted investments in the pension fund accounts had been based on the value of the unquoted investments reported as at 31 December 2009. Management subsequently provided evidence that there had not been a material difference in value of these investments between December 2009 and March 2010. However, in future management should formally estimate changes in valuation of these estimates up to the year end date and reflect this in the financial statements.

71 The value of investment commitments disclosed in the accounts was incorrectly stated. We recommend that a comprehensive review of all working papers and supporting records is performed as part of the year end closedown arrangements to ensure that amounts are correctly stated and are supported by a full audit trail.

Recommendation

R41 Produce detailed and clear quarterly investment report reconciliations for all categories of investments and ensure that these are independently reviewed by officers with a good understanding of investments.

R42 Reconcile investment information reported by fund managers and custodians and ensure that the pension fund's accounting records reflect the appropriate investment values.

R43 Estimate changes in market value of unquoted investments up to 31 March each year as part of preparing the financial statements.

Recommendation

R44 Undertake a comprehensive review of all working papers and supporting records as part of the year end closedown arrangements to ensure that items are correctly stated and supported by a full audit trail.

Other matters

72 Our review identified a number of areas where the draft accounts did not meet all of the requirements of the Pension Fund Statement of Recommended Practice (PF SoRP). The main matters have been detailed below:

- the net asset statement did not include a note to explain that the fund's financial statements do not take into account of liabilities and pay pensions and other benefits after the year end;
- the net asset statement did not include appropriate cross-referencing to the actuarial certificate of technical provisions and adequacy of contributions;
- the net asset statement did not state that actuarial liabilities have been excluded from the financial statements and include appropriate cross-referencing to the place where the actuarial information is disclosed;
- the financial statements did not disclose that they have been prepared on a going concern basis;
- the financial statements do not disclose the accounting policies judged material in accounting for or reporting on the transactions and net assets of the fund;
- the financial statements did not disclose that they had been prepared in accordance with the provisions of chapter 2 of the Pensions SoRP 2007 and the justification for any departures from the PF SoRP;
- the financial statements did not explain that additional voluntary contributions were excluded from the pension fund accounts;
- the financial statements did not include all of the details required regarding the disclosure of the gross value of derivatives, e.g derivative groupings in the categories required by the PF SoRP and fair values at maximum economic exposure values; and
- the financial statements did not disclose investments in the categories required by the PF SoRP.

Recommendation

R45 Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.

Appendix 1 Audit Findings reported to those charged with governance

We identified the following misstatements during the audit and all necessary adjustments were made.

London Borough of Brent

Table 1:

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		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		
Dr Depreciation Cr Deferred income Cr Operating costs Cr Interest paid Cr Contingent Rent Dr SMGFB (MRP) Cr SMGFB (Depreciation) Dr Fixed assets Cr Prepayment Cr Deferred income Dr Finance Lease creditor Dr Revaluation reserve	Adjustments arising from audit of Housing and Willesden PFI schemes. These are significantly related to: <ul style="list-style-type: none"> ■ not accounting for phased delivery of assets related to Housing PFI; and ■ incorrect accounting for lifecycle costs on the Willesden PFI. 	141 335	 36 108 156 35 141	2,697 677 446	1,797 1,383

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
Cr Capital adjustment account					640
Cr Fixed assets Dr Prepayment Dr Finance Lease creditor Cr Capital adjustment account	Impact of amendments to PFIs detailed above on opening balances			186 2,245	189 2,242
Dr Dwelling rents Cr Income from Service charges	Income from service charges has been incorrectly allocated as Dwelling rents	2,792	2,792		
Dr Interest paid Cr Central services	Correct misallocation of interest paid on PFIs	1,908	1,908		
Dr Expenditure Cr Provision Cr SMGFB Dr Earmarked reserve	Account for contingent liability which is now a liability at 31 March 2010 based on post balance sheet events	1,000	1,000		1,000
Dr Impairment Cr Fixed assets Dr Capital Adjustment Account Cr Statement of Movement in General Fund balances	Account for impairment on Willesden PFI property in accordance with LG SORP	647	647	647	647
Dr Central services expenditure Cr Statement of Movement in General Fund balances	Accounting for past service costs in accordance with LG SORP	460	460		
Net impact on reported deficit		1,914			

Brent Pension Fund

Table 2:

Adjusted misstatements	Nature of adjustment	Fund account		Net asset statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Changes in market value of investments	Overstatement of investment values	783			
Cr Investments					783
Net impact on fund account		783			

Appendix 2 Action Plan

Recommendations

Recommendation 1

Operate formal procedures for raising all purchase orders.

Responsibility Mick Bowden

Date 30th September 2011

Comments From September 2010 all PO requisitioning will be through Oracle i-procurement, enforcing a standard process. All users will be trained to ensure a common approach and understanding.

Recommendation 2

Strengthen disciplines concerning significant system reconciliations. In particular, reconciliations should:

- be prepared monthly;
- be evidenced as prepared and reviewed; and
- clearly evidence how variances are followed up.

Responsibility Mark Peart

Date 31st March 2011

Comments Monthly AP/AR reconciliations to GL will be undertaken by the Oracle service desk.

Recommendation 3

Maintain a log of queries raised regarding payroll data and ensure that these are resolved as part of the routine payroll production process.

Responsibility John Lee

Date 31st May 2011

Comments A new email and call management system is being implemented in People Centre which will meet this requirement.

Recommendation 4

Clear long standing reconciling items and un-cleared cheques on main Children & Families bank reconciliation.

Responsibility Mark Peart

Date 31st January 2011

Comments Reconcile and close bank account

Recommendation 5

Review procedures to ensure that the correct effective date is used to calculate Housing Benefit claims following notification of changes in circumstances.

Responsibility David Oates

Date 31st March 2011

Comments Review whether the current controls are the optimum method of ensuring accuracy.

Recommendation 6

Confirmation should be given to Capita that Council Tax refunds have been reviewed and authorised, before taking place.

Responsibility Margaret Read

Date 10th January 2011

Comments The current process does incorporate a final check on refunds before these are processed for payment by FSC- and this is available in the form of an email. A further check is now being introduced from 10th Jan 2011, which will provide a record of the client team check of proposed refunds before Capita authorise these on Northgate. This will provide a record of those refunds that have been agreed in addition to those that have been rejected.

Recommendation 7

Ensure the Council retains clear evidence to support all balances. Transactions should be fully supported and evidence filed appropriately to allow officers to reproduce support promptly in response to audit queries.

Responsibility Eamonn McCarroll

Date 31st May 2011

Comments Agreed - it is also proposed that detailed working files should be in electronic form.

Recommendation 8

Provide a full audit trail between the general ledger to the accounts. This should be sufficiently detailed to include:

- details and evidence of any adjustments;
 - identification of all relevant codes making up balances, and references in order to trace values between the general ledger and accounts;
 - record of date the general ledger report was run;
 - record of officer who prepared report; and
 - evidence of internal quality review.
-

Responsibility Eamonn McCarroll

Date 31st May 2011

Comments Agreed - for 2010-11 account we also propose to prepare the final accounts directly from the detailed trial balance. While this will be more time consuming, it is considered that this will further enhance the audit

trail.

Recommendation 9

Review debtor accounts for any balances which are supported by live systems. Ensure reports are run at year end to support account entries as at 31st March.

Responsibility	Eamonn McCarroll
-----------------------	------------------

Date	31st May 2011
-------------	---------------

Comments	Agreed - this will be done by the BP team and BHP.
-----------------	--

Recommendation 10

Implement a review of school returns to gain assurance over financial information provided. Evidence of reviews taking place should be clearly documented and can include:

- detailed review for a sample of all returns on a 3 year rolling basis;
- obtain evidence to support all significant balances;
- evidenced, detailed review of income and expenditure versus budget;
- comparative and ratio based analysis of outturn; and
- use of internal and external audit assurance.

Responsibility	Mustafa Salih
-----------------------	---------------

Date	31st May 2011
-------------	---------------

Comments	This will be initiated during the Autumn term.
-----------------	--

Recommendation 11

Obtain all external schools payroll reports to agree:

- schools payroll expenditure; and
- employees' Remuneration Note.

Responsibility	Mustafa Salih
-----------------------	---------------

Date	31st May 2011
-------------	---------------

Comments	This will be undertaken on a quarterly basis with all payroll expenditure reports from schools fully reconciled with the Employee's Remuneration note.
-----------------	--

Recommendation 12

Consider formally informing all schools of the requirement to allow banks to disclose information on schools bank accounts to the Council's auditor. Carry out an internal review to confirm all schools have acknowledged this information can be released.

Responsibility	Mustafa Salih
-----------------------	---------------

Date	31st March 2011
-------------	-----------------

Comments	This will be initiated during the Autumn term and completed by 31st December each year.
-----------------	---

Recommendation 13

Ensure authorisation and review of transactions to strengthen the processes over coding transactions to the ledger. Where there are separate codes to identify internal, external and

government balances the review should ensure these have been correctly use and follow up any miscoded items.

Responsibility	Eamonn McCarroll
-----------------------	------------------

Date	31st May 2011
-------------	---------------

Comments	Changes as part of the Finance Modernisation programme mean that some balance sheet transaction are now input by the FSC. Where these continue to be processed by the BP team, we will ensure that any entries for internal, external and government balances are separately coded.
-----------------	---

Recommendation 14

Ensure bad debt provision at year end is based on current level of debtors.

Responsibility	Mark Peart
-----------------------	------------

Date	31st May 2011
-------------	---------------

Comments	Review current arrangements and revise calculations to take account of the auditor's requirements
-----------------	---

Recommendation 15

Establish formal policy and procedures for accounts closedown and material systems.

Responsibility	Mark Peart
-----------------------	------------

Date	31st January 2011
-------------	-------------------

Comments	New corporate arrangements will be set for 10/11. Responsibilities of all staff and timetable for key activities will be set out.
-----------------	---

Recommendation 16

Ensure treatment of Collection Fund write-offs are in line with SORP guidance.

Responsibility	Mick Bowden
-----------------------	-------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 17

Review Collection Fund Account to final or latest version of NNDR claim.

Responsibility	Mick Bowden / Margaret Read
-----------------------	-----------------------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 18

Review entries on the HRA ensuring balances have been correctly allocated in accordance with the SORP.

Responsibility	Eamonn McCarroll
-----------------------	------------------

Date	31st May 2011
-------------	---------------

Comments	Recommendation agreed
-----------------	-----------------------

Recommendation 19

Provide a full list of all external valuers used, relevant to the audited year, for our confirmation and review procedures.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 20

Review listing of all leases to ensure start and end dates agree to supporting documentation.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 21

Leases disclosed in the accounts should be evidenced with supporting documentation to show:

- Start date and term of lease;
- Annual lease payment;
- Name of lessee and lessor.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 22

Carry out regular reviews of PFI and service concessions to identify any new arrangements or changes to existing conditions. In particular review:

- Basis for lifecycle costs;
- Impact of any contract variations;
- Revaluation of assets especially new schemes;
- Schemes where assets are delivered on a phased basis to ensure these are accounted for in the correct periods.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 23

Provide a full listing of loans and investments outstanding at year end. This should be provided to the audit team by 30th April and detail:

- name of organisation;
- amount of transaction; and
- contact name, address and telephone number.

Responsibility	Chris Thompson
-----------------------	----------------

Date	30th June 2011
Comments	Agreed
Recommendation 24	
Evidence treatment of Icelandic investments and Council's review of guidance and legal advice to support disclosure.	
Responsibility	Chris Thompson
Date	30th June 2011
Comments	Agreed, will be updated.
Recommendation 25	
Review all provisions at year end to supporting documentation.	
Responsibility	Mark Peart
Date	30th June 2011
Comments	Agreed
Recommendation 26	
Review all provisions and contingent liabilities to the relevant recognition criteria in FRS12.	
Responsibility	Mark Peart
Date	30th June 2011
Comments	Agreed
Recommendation 27	
Ensure disclosures for provisions and contingent liabilities meet requirements of FRS12.	
Responsibility	Mark Peart
Date	30th June 2011
Comments	Agreed
Recommendation 28	
Ensure that legal review of potential liabilities is jointly considered by legal and finance officers in determining accounting treatment.	
Responsibility	Mark Peart
Date	30th June 2011
Comments	Agreed
Recommendation 29	
Prepare and review all legal costs of the Council for possible undisclosed legal matters.	
Responsibility	Mark Peart
Date	30th June 2011
Comments	Agreed
Recommendation 30	

Ensure that the accounts for all retirement benefit amounts are included in the accounts in accordance with FRS17 and the SORP.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 31

Ensure compliance with the SORP when preparing the Financial Instruments Note.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 32

Ensure a full review of the annual accounts is completed to ensure compliance with disclosure requirements of the LG SORP.

Responsibility	Mark Peart
-----------------------	------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 33

Ensure Employees' Remuneration Note has been compiled taking into account all relevant payroll and redundancy data. This should include coverage of any officers receiving redundancy payments to confirm total remuneration amount.

Responsibility	Mark Peart / Andy Gray
-----------------------	------------------------

Date	30th June 2011
-------------	----------------

Comments	Agreed
-----------------	--------

Recommendation 34

Consider bringing forward Brent Housing Partnership audit signoff to allow sufficient time to review findings as part of the main London Borough of Brent audit.

Responsibility	Clive Heaphy
-----------------------	--------------

Date	31st March 2011
-------------	-----------------

Comments	Discuss practical implications with BHP/EM
-----------------	--

Recommendation 35

Share best practice arrangements for finance throughout the Council.

Responsibility	Mick Bowden
-----------------------	-------------

Date	1st April 2010
-------------	----------------

Comments	Through the Finance modernisation programme and its roll out, all financial procedures have been standardised.
-----------------	--

Recommendation 36

The Council should ensure the new centralised finance unit will be able to provide a full audit trail between the ledgers to the accounts. In particular:

- Knowledge of how balances have been derived should be shared across the finance team;
- The reason for any adjustments between the ledger and the accounts should be evidenced clearly and authorised by senior officers;

Responsibility	Mick Bowden
Date	30th June 2011
Comments	This will be completed and presented to the auditor as part of the pre-audit work/checks.

Recommendation 37

Prepare a central working paper file for the accounts audit.

Responsibility	Mick Bowden
Date	30th June 2011
Comments	The council will operate through a single Oracle company in 10/11 so no individual I&E and B/S unit returns will exist. Financial transactions will be consolidated centrally.

Recommendation 38

Respond to all audit queries within agreed timescale of 2 days.

Responsibility	Mick Bowden
Date	30th September 2011
Comments	Instruction will be issued as part of the 10/11 closure

Recommendation 39

Obtain formal assurance from the LPFA that the agreed checks have been performed on contributions and amounts paid to pensioners.

Responsibility	Martin Spriggs
Date	30th April 2011
Comments	Assurance will be obtained at year end

Recommendation 40

Arrange for all journals to be formally approved by officers.

Responsibility	Martin Spriggs
Date	30th June 2011
Comments	Agreed, journals will be signed

Recommendation 41

Produce detailed and clear quarterly investment report reconciliations for all categories of investments and ensure that these are independently reviewed by officers with a good understanding of investments.

Responsibility	Martin Spriggs
-----------------------	----------------

Date	30th June 2011
Comments	Reconciliations have been simplified and will be reviewed as completed

Recommendation 42

Reconcile investment information reported by fund managers and custodians and ensure that the pension fund's accounting records reflect the appropriate investment values.

Responsibility	Martin Spriggs
Date	30th June 2011
Comments	The custodian figures are the prime ones for the Council to use. The custodian and fund manager will be requested to resolve any differences that arise.

Recommendation 43

Estimate changes in market value of unquoted investments up to 31 March each year as part of preparing the financial statements.

Responsibility	Martin Spriggs
Date	30th June 2011
Comments	The most up to date information available to the Council will be used when compiling the accounts. Attempting to estimate changes in value for investments that are not correlated to general market valuations is highly speculative.

Recommendation 44

Undertake a comprehensive review of all working papers and supporting records as part of the year end closedown arrangements to ensure that items are correctly stated and supported by a full audit trail.

Responsibility	Martin Spriggs
Date	30th June 2011
Comments	Improve working papers

Recommendation 45

Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.

Responsibility	Martin Spriggs
Date	30th June 2011
Comments	Agreed with auditor in 2009/10