

Progress Report

June 2011

Brent London Borough

Audit 2010/11

Audit Committee 15 June 2011

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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.
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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 finalised our interim audit. We have agreed the report with officers. We are in process of finalising the action plan with officers. Our interim report includes our:
 - flowcharting and walkthroughs of material financial systems;
 - detailed review of the IT control environment;
 - controls testing on selected systems;
 - early substantive testing; and
 - review of early revised IFRS financial statements and working papers.

Our findings are detailed in Appendix 2 for the Audit Committee;

- we have issued our fee letters for 2011/12 for the Council and its Pension fund. This has been agreed with the Director of Finance and Chief Executive. This is included on the agenda for the Audit Committee.

2 Appendix 1 shows details of all outputs planned in respect of 2010/11.

Recent Audit Commission announcements and publications

3 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](#)

Going the distance - Achieving better value for money in road maintenance

4 'Going the distance - Achieving better value for money in road maintenance' looks at the challenges faced by the country's 152 council highways authorities.

5 England's 236,000 miles of local roads - used by 30 million drivers every day - are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.

6 The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience.

7 It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.

Services for Young People: Value for Money Self-Assessment Pack

This [free self-assessment pack](#) is a collaboration between the Audit Commission and the Confederation of Heads of Young People's Services (CHYPS). It aims to help make sure money spent on services for young people is well used and has the right impact.

8 Already piloted in six areas, it was credited with:

- helping statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
- increasing self-awareness among managers and staff about council youth services;
- stimulating discussion between partner organisations on improvement and how to achieve better value for money;
- identifying some 'quick wins'- for example, doing more to celebrate young people's achievements; and
- generally raising the profile of youth services.

9 The pack is organised into five modules which take users through a structured assessment of their services, drawing on their own and comparative data about spending and outcomes. It then helps them prepare an action plan to provide the best value for money services for young people, specifically tailored to their area and its resources.

Summary

10 Services for Young People: Value for Money Self-Assessment Pack is a voluntary, online, self-assessment tool aimed at elected members and senior staff with an interest in services for young people. It is relevant to all councils, fire and rescue authorities, the police, voluntary and private sectors - indeed anyone who is involved in commissioning or delivering services locally for young people.

11 In 2009 the Audit Commission report [Tired of Hanging Around](#) showed how sport and leisure activities could prevent young people being drawn into anti-social behaviour. It found that a young person caught up in the criminal justice system costs the taxpayer £200,000 by the age of 16, but one needing support to stay out of it costs less than £50,000. The report identified a need for councils and their partners to improve resources for young people. This new resource is designed to complement it.

Checking the scale of fraud and corruption nationwide

12 Over 450 public bodies - including councils, police authorities and probation boards - are being asked to take part in the latest Audit Commission national fraud and corruption survey.

13 Covering the 2010/11 financial year, the annual survey issued on 8 April 2011 will collect important information about a wide range of fraud and corruption issues, including housing tenancy and procurement fraud.

14 The survey is the only one of its kind in the public sector. Last year over 94 per cent of organisations responded to the 2009/10 survey. The last survey showed that local government have been successful in detecting over 119,000 cases of fraud and corruption committed against it, the majority relating to housing and council tax benefit fraud, equating to more than £135 million lost to public services.

15 The high response rate ensures the survey is the most authoritative and comprehensive basis for analysis and comparison. By helping to build a picture of the levels of identified fraud and corruption in local government across England, the survey can be used to inform the national debate, and develop national and local strategies, on combating fraud and corruption. The survey results will be published in our national report entitled 'Protecting the Public Purse 2011' later this year.

Statement from the Chairman of the Audit Commission welcoming consultation on the future of local audit

16 Michael O'Higgins, the Commission's chairman, said:

17 'The Audit Commission welcomes the publication of the Department of Communities and Local Government's consultation paper on the future of local public audit. Consultees and Parliamentarians will want to debate these issues fully. There are likely to be three key issues in the debate - safeguarding audit independence, accountability to government and Parliament, and the impact on audit competition and costs.

18 'External audit is an essential element in the process of accountability for public money. So it is right that councils and other stakeholders should now have the opportunity

to consider and comment on the government's proposals for the new system of local audit, and the significant practical and financial implications for them.

19 'We accept that we are to be abolished. Our only aim therefore is to ensure that the future arrangements for local public audit are robust and sustainable in professional, technical and economic terms. To that end, we have worked closely with DCLG and other stakeholders, including the National Audit Office, the Financial Reporting Council and the professional institutes to help develop the proposals. Unsurprisingly, we agree with some, but not all, aspects of the proposals and we will submit a response to the consultation paper.

20 'Some councils have gone to extraordinary lengths to prevent an auditor issuing a public interest report, including lobbying to have the auditor removed. That is why we set such store by the principle of independent appointment, as we set out in [our evidence to the current CLG Select Committee inquiry \(external link\)](#). The government's proposals for audit committees with a majority of independent members will go some way to safeguarding auditors' independence, but it is too early to judge if the safeguards will be sufficient.

21 'The independent appointment of auditors has a long history. In our view, and the view of Parliament when this was last debated, it remains an essential safeguard and should not be discarded lightly.

22 'Government departments, and Parliament, to which they are accountable, need assurance that the billions of pounds of public money given to local public bodies have been safeguarded, accounted for properly and spent for the purposes intended. They get this currently from the Commission's arrangements to coordinate, and assure the quality of, appointed auditors' work. How will they get this assurance under the proposed fragmented, regulatory framework?

23 'It is likely there will be real market competition for the bigger, more commercially attractive authorities, which may drive down prices for them. But, there is a risk that the new arrangements will reduce rather than increase competition. That is why we are keen to preserve the specialist knowledge and expertise of the Commission's in-house audit practice, through the establishment of a new, employee-owned audit firm (or 'mutual'), to provide all local public bodies a wider choice.

24 'Once the Commission is abolished, local public bodies will not have to pay the element of the audit fee that is levied to fund the Commission's core statutory functions such as audit regulation and national studies. In 2011/12 this amounts to around £11 million or 7 per cent of audit fees. But we are concerned that the proposals will introduce extra costs, which could lead to increases in audit fees for many bodies.'

25 These extra costs, which could be significant, arise from:

- Removing the safeguards that currently mitigate the professional risks the audit firms face. These are inherent in the wider statutory responsibilities of local public auditors. In future these risks will be priced into fees.
- The loss of the current economies of scale from bulk purchasing, which are currently passed back to local bodies.

Summary

- Price premiums for some bodies considered unattractive on commercial grounds because they are too risky or are geographically remote.
- New compliance costs for audit firms, to fund the new regulatory framework. Firms will also incur additional costs of preparing and submitting multiple bids.
- Additional costs for councils themselves, from establishing the proposed new independent audit committees. County and unitary councils will also have the cost of appointing independent examiners to, and regulating, parish councils within their areas.
- Potential changes to the structure of the market which may reduce competition and therefore impact on audit fees.

2011/12 Work programme and scale of fees

26 The Audit Commission is again cutting audit fee scales for health and local government and community safety organisations next year. Scale audit fees for bodies will be between 5 and 20 per cent lower in 2011/12 than in 2010/11.

27 On 13 August 2010, the government announced its plan to abolish the Commission. So the scale fees for 2011/12 could be last the Commission sets.

28 The Commission has agreed, subject to affordability, to make additional rebates in 2011/12. This means all audited bodies will see a significant net reduction in fees compared to 2010/11. We will notify audited bodies of the amount due to them in the summer.

29 Subject to the timetable for our abolition, we are also committed to delivering further significant fee reductions of up to 15 per cent in 2012/13.

30 The Audit Commission has consulted on its work programme and scales of fees for 2011/12. The documents are available below including a report summarising the feedback received to our consultation and our response to the key issues raised by respondents.

31 Local government, housing and community safety

32 The [final work programme and scales of fees for local government, housing and community safety \(PDF, 237kb\)](#) document confirms significant reductions in audit fees, reflecting both the new approach to local value for money (VFM) audit work and a reduction in the ongoing audit costs arising from the introduction of International Financial Reporting Standards. The [scale fee for each audited local government, housing and community safety body](#) are also available.

33 We expect revised and consolidated Accounts and Audit Regulations (the Regulations) to apply to the audit of accounts for 2011/12. The proposed changes include increasing the threshold for smaller relevant bodies to £6.5 million. Some 100 more bodies would, therefore, be eligible for limited assurance audit. We will consult on extended scales of fees for limited assurance audit after the Regulations come into force.

34 Scale fees

35 The scale fees for 2011/12 have been based on the information available from auditors as at 31 December 2010, adjusted for the reductions set out in the final work programmes

and scales of fees documents. These fees may differ from those published at the start of the consultation, which were based on information as at 30 September 2010.

36 The Commission can approve variations to the scale fee. This will allow us to reflect changes in circumstances. Variations to fees can be agreed before or at the end of the 2011/12 audit.

37 As the 2011/12 scale fees are based on the fee for 2010/11, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

38 Auditors' local value for money work

39 Details of how the new, more focused approach to local value for money audit work will apply to different bodies with the Commission's regime are available.

Better value for money in schools

40 These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings.

41 England's maintained schools spent £35 billion in 2009/10. School staff account for over three-quarters of this total and form one of the country's largest public sector workforces.

42 These briefings, under the heading **Better Value for Money in Schools**, examine patterns in spending in maintained schools in England. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment.

43 They look at four areas where schools have scope to improve efficiency:

- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools' curriculum offer;
- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

44 In addition we published a summary paper, **An overview of school workforce spending**, which is targeted at chairs of governing bodies and lead members on children's services.

45 For more information about the briefings you can email schoolsworkforce@audit-commission.gov.uk.

The final countdown: IFRS in local government

46 The Commission has published the final briefing paper in its countdown to IFRS series, reporting on findings from a January 2011 auditor survey on implementation of IFRS in local government.

Summary

47 The briefing paper covers IFRS implementation in councils, police authorities and fire and rescue authorities.

48 In this paper we:

- make comparisons with an overall assessment taken in November 2009 and July 2010;
- look at how far authorities have progressed with key steps such as the restatement of 2009/10 accounts;
- highlight the technical aspects of financial reporting that have raised issues for authorities; and
- set out key actions for authorities at this stage.

49 Our overall message is that even those authorities with issues to resolve still have time to implement IFRS successfully, if they take appropriate action. However, they need to act now, as problems that arise later in the final accounts period may lead to added costs for the authority or material errors in draft accounts.

50 We suggest the following actions for authorities at this stage:

51 Authorities should:

- complete any key outstanding IFRS implementation tasks, such as restatement work, without further delay;
- integrate any remaining tasks into their accounts closedown timetable;
- leave enough time to prepare the increased number of IFRS disclosures and to resolve any remaining financial reporting issues;
- ensure their accounts closedown timetable is realistic, building in enough time and staff resource to deal with issues that will inevitably arise during the closedown period;
- keep their auditors informed on their progress in resolving IFRS financial reporting issues and seek to agree time in advance to review work as they enter the closedown period;
- continue to discuss progress of IFRS implementation with their audit committees; and
- take steps now to ensure that IFRS knowledge and skills are captured and embedded, to enable good financial reporting in future years.

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 systems	December 2010 – June 2011	Work completed. Findings reported to Audit Committee in June 2011, including financial systems work, early substantive testing and IFRS
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2011	
Value for Money		
Project management review		
Value for money conclusion	June 2011 to September 2011	
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 2 Interim report

Key findings from our interim audit

52 I planned my interim audit to cover:

- documenting and walking through your material information systems;
- testing the key controls within these systems, including where possible, relying on the work of internal audit;
- evaluating your control environment including assessing general information technology (IT) controls; and
- carrying out testing on additional areas, as agreed with officers, including:
 - review of IFRS restatement and;
 - testing transactions covering the first nine months of the year.

Material Information Systems

53 The material systems identified for the 2010/11 financial statements are:

- general ledger
- accounts payable
- accounts receivable
- payroll
- treasury management
- cash and bank
- fixed assets
- housing rents
- housing benefits
- council tax
- national non-domestic rates (NNDR)

54 The Council moved its main accounting system to a new Council wide Oracle system in September 2010. This change affected the general ledger, accounts payable, accounts receivable and parts of the cash and bank systems.

55 I planned to test the key controls on the general ledger, accounts receivable, and accounts payable systems to determine if they had been operating effectively throughout the financial year. I also planned to rely on the assurance over payroll system controls from the work I performed in 2009/10.

56 The results of my testing are set out in Appendix 1.

57 I concluded the systems operate as documented and that there are no major weaknesses in the design of the systems that would lead to a material error in the financial statements, except in the following areas:

- controls over journals did not operate as documented throughout the year;
- evidence to support authorisation of payment runs or BACS payments were not always retained or approved in accordance with the Council's written procedures;
- the introduction of the new Oracle system during the year resulted in a period where the Council needed to operate transitional procedures before properly establishing formal controls and procedures for the accounts payable and accounts receivable systems; and
- reconciliations between the council tax and NNDR systems, bank accounts and cash receipting systems were in progress throughout the year due to the transition to the new Oracle system. These reconciliations were finalised at the year end.

58 I will need to perform additional substantive testing where I was not able to gain the planned controls assurance. This includes the general ledger (journals), accounts payable and accounts receivable systems. Normally, this would lead to an additional fee. At present, I believe this additional cost will be offset against audit efficiencies gained due to the more centralised nature of the new general ledger, accounts payable and accounts receivable systems. But I will need to keep this under review at the final audit visit.

Recommendation

R1 Establish procedures and reviews to ensure that journals are:

- properly filed;
- supported by appropriate documentary evidence; and
- approved by an appropriate officer.

R2 Ensure payment runs and BACS payments are:

- appropriately authorised in line with the Council's procedures;
- approval is evidenced.

R3 Ensure that procedures relating to the accounts payable and accounts receivable system operate throughout the year, in particular:

- regular and timely reconciliation of control accounts; and
- full use of the purchase order function.

R4 Ensure a three-way reconciliation between the bank account, cash receipting and the main financial systems are formally completed and reviewed as part of the Council's monthly accounting close down arrangements.

Information Technology (IT) Controls

59 As part of my audit I evaluate and test your general IT controls, such as access controls within your material information systems.

60 My review is split into two categories;

- obtaining an understanding of the risk management procedures in relation to IT; and
- testing to ensure that controls relevant to the material financial systems are sufficient and operating effectively.

61 I have not identified any significant weaknesses in the Council's risk management or IT controls. I can therefore rely on the Council's automated IT controls for the purposes of my audit.

62 However, I did identify the following potential risk:

Table 2 IT risks

IT risk	Audit response
<p>The Council is currently developing the end user financial reporting structure within the Oracle system to produce the year end financial statements. If the Council is unable to rely on this system within Oracle it is likely that the Council will rely on spreadsheets to produce the year end financial statements.</p> <p>Both the use of a newly developed financial reporting structure within Oracle and/or the significant use of spreadsheets to produce the financial statements will result in a potential risk of issues arising over the accuracy or reliability of the financial information.</p>	<p>I will carry out detailed testing to ensure that the transactions and balances reported in the financial statements reflect the entries within the Council's general ledger.</p>

- formalise current IT problem and incident management processes into a documented policy;
- there is no formal IT disaster recovery/business continuity plan in place;
- no IT back-up restoration testing has been undertaken during the last twelve months for Oracle Financials and Interact.

Recommendation

R5 The Council should:

- formalise current IT problem and incident management processes into a documented policy;
 - establish a formal IT disaster recovery and business continuity plan; and
 - establish a regular programme of testing the restoring of IT back-ups for Oracle Financials and Interact.
-

IFRS restatement review

63 The Council is required to produce financial statements that are fully compliant with International Financial Reporting Standards in 2010/11. This requires the Council to restate its:

- balance Sheet as at 01 April 2009;
- balance Sheet as at 31 March 2010; and
- comprehensive Income and Expenditure Statement for 2009/10;

64 The Council is also required to;

- produce relevant notes to the accounts for 2010/11 and 2009/10 comparators; and
- agree accounting policies to support the methodologies used to produce the restated financial statements.

65 I have reviewed the above and found that the Council has largely implemented these IFRS requirements effectively. I noted a number of errors within the restatements which I have brought to the attention of management. None of these reported errors are significant.

66 The Council has yet to complete its IFRS restatement work or provide supporting documentation in respect of:

- School leases
- its asset valuation; and
- group undertakings, including the consolidation of Brent Housing Partnership.

67 Consequently, I have been unable to review these areas as part of my early testing, as previously planned and agreed with the Council. I will now review these areas as part of final audit visit.

Detailed testing of transactions

68 As part of my audit procedures, I planned to carry out substantive testing of income and expenditure in the Council's new Oracle general ledger. For income, I selected a sample from transactions up to and including month 9. For expenditure I selected a sample up to month 10.

69 I started income testing, but found that most of my sample relates to grant income from government departments. It is more efficient to test this when the Council has been notified of final grant allocations. Therefore, I now plan to complete this testing as part of my final audit visit.

70 I have received evidence for approximately 80% of my sample on expenditure. From the testing completed to date, I have no significant issues to report. I will complete this work as part of my final audit visit.

DRAFT

The Audit Commission

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

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

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

Copies of this report

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

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