Annual governance report

Final report as at 24 November 2011

London Borough of Brent

Audit 2010/11

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the progress on your 2010/11 audit since my reports to the Audit Committee on 22 September 2011 and the 21 October 2011. The audit is now complete. This report includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	My findings
Unqualified audit opinion	◆
Significant weakness in internal control	◆
Proper arrangements to secure value for money	◆

Audit opinion and financial statements

- It has been a particularly difficult year for the Council, implementing new financial systems and International Financial Reporting Standards (IFRS) whilst also dealing with structural change, staff losses, and a highly challenging budget settlement. This has stretched finance resources and impacted on the Council's ability to produce good quality financial statements and working papers.

Financial statements and audit opinion

- My audit is substantially complete and I plan to issue my audit report including an unqualified opinion on the financial statements by the end of November. Appendix 1 contains a copy of my draft audit report.
- This year, there were significant weaknesses in the Council's year end closedown and financial reporting arrangements which need to be addressed.
- My audit identified five material errors (one disclosure related) which the Council has amended. The amendments have decreased the reported deficit on total comprehensive income and expenditure by £8,426,000 and increased the reported net assets by £8,958,000
- I identified a further 26 non material errors (appendix 2) and a significant number of disclosure errors which the Council also agreed to amend. The amendments have further decreased the reported deficit on total comprehensive income and expenditure by £770,000 and decreased the reported net assets by £571,000.

- I identified a further 19 non material errors and uncertainties (appendix 3) which management do not propose to amend. The net impact, if recognised in full, of the unadjusted errors and uncertainties would be to increase the reported deficit on provision of services by £781,000 and decrease the net assets by £2,273,000.

Internal control

- There are significant weaknesses in the design and operation of internal controls that need to be addressed.

The way forward

- My testing has confirmed the financial statements are not materially mis-stated. However, there still remains a significant amount of work to do to ensure that data migrated to the new financial accounting system is properly cleansed, that internal controls are working properly and financial reporting arrangements are robust.
- I have made 15 recommendations in my report which management have accepted. The Audit Committee will need to satisfy itself that management have a robust and credible plan to implement both my recommendations, and the recommendations made by internal audit during the year.

Value for money

- I propose to issue an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- The level of the Council's general fund reserves has declined over the last few years and is now the lowest amongst London Boroughs. Plans to build balances are included in the medium term financial plan, but are dependent on the Council delivering on its significant savings plans.
- Members should continue to closely scrutinise the financial position of the Council and ensure there are adequate balances to mitigate the higher level of operational and environmental risk that the Council is facing.

Elector and legality matters

- I have concluded on outstanding elector and legality matters raised during the course of my audit.
- I am satisfied that the Council has appropriate governance arrangements in place to identify and act upon instances of fraud and non compliance with regulations.
- I am satisfied that these matters do not have a material effect on the 2010/11 financial statements.
- Based on the evidence currently before me, I do not intend to take any further action.

Audit fee

- Due to the problems encountered during the course of my audit, and the issues arising from electors, I expect to charge an additional audit fee which I expect to be £50,000. I will confirm and agree the final audit fee with the Director of Finance and Corporate Resources.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.
I ask you to confirm to me	**I ask the audit committee to:** ■ take note of the adjustments to the financial statements which are set out in this report (appendix 2); ■ agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3); ■ approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion (appendix 4); and ■ agree your response to the proposed action plan (appendix 6).

Financial statements

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

Financial statements and audit opinion

My audit is substantially complete and I plan to issue my audit report including an unqualified opinion on the financial statements by the end of November 2011. Appendix 1 contains a copy of my draft audit report. The Council is required to publish its revised audited financial statements in accordance with legislation.

In my annual governance reports to the Audit Committee dated 2 September 2011 and 21 October 2011, I reported the significant difficulties I encountered during the course of my audit. These largely arising from the introduction of a new financial accounting system, the introduction of International Financial Reporting Standards (IFRS) and the capacity of the Council's finance team to accommodate the additional workload brought by these two key changes. Consequently, I was not able to complete my audit by the due date of 30 September 2011 and the Council published its unaudited accounts on 30 September 2011, to comply with legislative requirements. The main issues which delayed my audit were as follows.

- The financial statements presented for audit were not complete and did not fully comply with IFRS. The statements excluded key transactions relating to the Council's Private Finance Initiative (PFI) agreements and leases. This has contributed to the high volume of amendments to the draft accounts.
- A full set of working papers supporting the financial statements was not available at the start of my audit. I agreed to a revised audit timetable which the Council struggled to meet. Key documents, such as the bank reconciliation, detailed lists of debtors and creditors, and a reconciliation of the Comprehensive Income and Expenditure statement to the general ledger were not available until much later in the audit process.
- The Council's bank account was not properly reconciled at the start of the audit. This was attributable to the move to Oracle and gaps in the processes and controls implemented by the Council. It took the Council a considerable time to provide the reconciliation. The first reconciliation provided to me contained £6.6 billion of gross reconciling items and balances relating to bank accounts which had either been closed or had a nil balance at the year end. I recommenced my detailed testing on version 36 of the reconciliation which I received on 24 October 2011.

- My testing on year end debtor and creditor balances identified that the balances included old balances which had not been cleared prior to migration to the new financial system. I have undertaken additional testing to confirm the balances are not materially mis-stated, however, my testing shows that debtors £5,419,000 and creditors £5,603,000 may be overstated.
- Overall, I raised 116 queries, which were not cleared within two days, throughout the period of my audit. This is a significant number and more than I would have expected to raise on an audit of this size. A large number or my queries related to the Council's supporting working papers, cash and bank, debtors and creditors balances.
- The revised financial statements, presented to me as agreed on 28 October 2011, did not contain all of the expected amendments. We have received further versions, and expect to complete our final review on the version provided on the 24 November 2011.

Errors in the financial statements which have been amended

My audit identified five material errors (one disclosure) which the Council have agreed to amend. These are detailed below.

- Transactions for PFI agreements were not included in the draft financial statements. After completing my audit procedures, I agreed the amendment to increase assets by £21,876,000, increase liabilities by £25,603,000 and reduce reserves by £3,727,000. The amendment includes the correction of an error highlighted by my audit procedures relating to increasing the Stonebridge PFI liability, revised valuation and impact of asset sales on the new non-HRA housing PFI.
- A material downward revaluation of £240,153,000 was misclassified. The revaluation resulted from a national change in the social housing factor on the valuation of Council housing stock, which was incorrectly treated as Other operating expenditure in the Comprehensive Income and Expenditure Statement (CI&E). This should be reclassified to the net cost of services within the CI&E in accordance with the Best Value Accounting Code of Practice 2010/11 (BVACOP). This has no impact on the reported deficit.
- A material negative past service cost of £117,950,000 was misclassified. The past service cost resulted from a change in the national basing of annual pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI), which was incorrectly treated as Other operating expenditure. This should be treated as a Net cost of service cost within the CI&E as required by International Accounting Standard: Employee Benefits (IAS19). This has no impact on the reported deficit.
- An error was made while entering the valuation for land at Copland Community School into the Council's asset management system. This resulted in an understatement of land in the balance sheet of £12,685,179. This asset needs to be revalued upwards by £12,685,179, the impairment of £6,000,000 reversed and a revaluation gain of £6,685,179 recognised. This leads to a £12,685,179 increase in net assets.
- The Movement in Reserves Statement (MiRS) for 2010/11 and 2009/10 included multiple, material disclosure errors. The purpose of this statement is to disclose movements between reserves and adjustments between accounting and funding basis. The original MiRS received was fundamentally incorrect, for example:
  - surplus on the Comprehensive Income and Expenditure statement (CI&E) of £130 million was incorrectly recorded as a deficit;
  - other comprehensive income and expenditure did not agree to the CI&E, with a variance of £140 million; and
  - key adjustments needed to eliminate the impact of transactions on reserve balances were not performed correctly.

- The variances above arose partly because of the misclassification of the two exceptional items listed above. However, there were also numerous accounting errors, which resulted in movements being allocated to the incorrect reserve and at incorrect values, for example:
  - a £58 million error in capital grants unapplied (incorrectly credited to the Capital Adjustment Account (CAA) rather than the CI&E; and
  - £21 million of asset disposal proceeds incorrectly credited to the CAA rather than the CI&E.

Similar issues were identified in the Council's restatement of the 2009/10 MiRS to comply with IFRS. We also identified instances where material movements between reserves were treated inconsistently between 2009/10 and 2010/11. The Council have agreed to the necessary amendments to correct the MiRS for 2010/11 and 2009/10.

In addition to the above, I identified a further 26 errors which the Council have agreed to amend. These are detailed on Appendix 2 of this report. I also identified a significant number of disclosure errors which the Council have also agreed to amend.

Errors in the financial statements which have not been amended

My audit has identified a further 20 errors and/or uncertainties, which management do not propose to amend. These are detailed below. The net impact, if adjusted in full, of the unadjusted errors and uncertainties would be to increase the reported deficit on provision of services by £781,000 and decrease the net assets by £2,273,000.

- My work on testing the outstanding items on the bank reconciliation identified some errors. I have extrapolated these errors with the following impact. The amendment would increase the reported deficit and net assets by £1,887,000.
- My sample testing of debtors and creditors identified old balances that were not reviewed prior to the migration of balances to the new financial system. Eleven uncertainties arose in relation to debtors and creditors. I am unable to gain sufficient assurance to support these balances and it is uncertain whether these amounts will be received or paid by the Council. Consequently, debtors and creditors may be overstated. If the Council were to adjust the financial statements, the net impact would be to increase the reported deficit by £184,000, reduce debtors by £5,419,000 and reduce creditors by £5,603,000.
- I identified an error in how the Council's asset manager software calculated depreciation on recently revalued assets. The extrapolated impact of this error would be to increase depreciation of £586,000 and increase the reported deficit. This would reduce the value of net assets by the same value.
- I was not able to gain assurance over £1,016,000 of the change in revaluation of Property, plant and equipment reported in the Comprehensive Income and Expenditure Account. The Council were unable to substantiate or provide evidence for this accounting entry. To amend for this uncertainty would reduce the reported deficit by £1,016,000.
- The Council has not accounted for component accounting in accordance with its stated policy and as required under IFRS. The Council has not identified components and the different rates of depreciation for the scheduled assets. I estimate the impact to be an understatement of fixed assets and depreciation by £372,000. To amend for this uncertainty would increase the reported deficit and net assets by £372,000.
- My sample testing of income identified an expense incorrectly netted off income within the Comprehensive Income and Expenditure Statement. The extrapolated impact of this error would be to reduce income and expenditure by £946,000. This has no impact on the reported deficit or net assets.

- Council tax collections had not been accrued for up to 31 March 2011. Internal controls and processes are not robust enough to ensure the income is recorded for the last few weeks of the financial year. The Council has made changes to eliminate this in the 2011/12 year. The debtor collections were understated by £228,000. This would have no impact on the reported deficit and net assets.
- In reconciling the Council's general ledger reporting to the Comprehensive Income and Expenditure Statement, I identified an unexplained variance of £476,000. This would increase the reported deficit.
- I identified one payment accounted for as an expense, which related to the 2011/12 year. Therefore this should have been accounted for as a prepayment. My extrapolation of this error indicates a possible overstatement of expenditure of £388,000. This would decrease the reported deficit if amended.

The way forward

It is clear from my work that the Council has struggled to implement its new general ledger system and implement IFRS effectively in the same year. This is while also dealing with structural change, staff losses and a highly challenging budget settlement. The introduction of a new financial system and related processes needed a stronger central financial control function, to take an overall lead on:

- monitoring compliance with timetables;
- reviewing key balances, including challenge of unexplained variances; and
- overall ownership and responsibility for the financial statements.

The Council did not have the right capacity, skills and structures to effect the changes required to work in a different and more centralised way. Consequently, the Council was not able to respond to the warning signs reported in both internal and external audit reports during the year. Following completion of the audit, the Council should undertake a review the skills and capacity need to ensure:

- the tasks and responsibilities required to operate the new financial system effectively are clearly mapped and allocated to relevant staff;
- training needs are identified and delivered;
- skills and capacity required to produce IFRS compliant statements are assessed and provided; and
- a robust financial statement closedown (a clear project plan is in place, allocating responsibilities to officers and targets to monitor progress to date) is developed and delivered.

I will review the position with the Director of Finance and Corporate Resources following the audit, and review plans for improvement

Recommendations
R1 Review of the financial reporting and control function and make the changes required to ensure it is fit for purpose.
R2 Approve, sign and publish audited accounts in accordance with section 8 of The Accounts and Audit (England) Regulations 2011.

Key areas of judgement and audit risk

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

Key audit risk and my findings

Key audit risk	Finding
1. Transition to International Financial Reporting Standards The Council is required to prepare the 2010/11 financial statements according to International Financial Reporting Standards (IFRS) (including a full re-statement of 2009/10 balances). This poses a significant risk of material misstatement to the financial statements.	In 2010/11, my audit team has: ■ monitored the implementation of IFRS at key stages; and ■ reviewed restated 2009/10 balances. I rated the Council's progress on IFRS implementation as red (Not on track/Significant issues) and reported this to the Audit Committee in February 2011. The financial statements presented for audit were not complete and not fully compliant with IFRS. The financial statements omitted transactions relating to school leases and PFI contracts. I identified a large number of areas where the financial statements did not comply with IFRS disclosure requirements, the most significant of which related to the Movement in Reserves Statement where material errors were noted. Further detailed analysis is found in the Quality of your financial statements section of this report. The revised financial statements comply with IFRS, after the agreed audit amendments were made.

Key audit risk	Finding
2. Consolidation and migration of main accounting system The Council has made significant changes to its financial IT systems. Separate departmental arrangements and systems have been consolidated into one Oracle system used throughout the Council, including the general ledger, accounts payable and accounts receivable. There have been associated staff losses and some staff have very different roles within finance, as part of modernising the service. These changes were effective from 1 September 2010. This is part of the 'One Council' Improvement and Efficiency strategy.	My audit team has: ■ considered reviews performed by Internal audit on the system changes; ■ reviewed the migration of data from existing systems to the new financial system; ■ reviewed controls over the new financial IT systems; ■ documented and tested the new financial systems; ■ performed controls testing, taking consideration of Internal audit's work; and ■ substantively tested the output during my final accounts audit. My review of the change process confirmed that the data was migrated to the new system, although there was limited evidence of controls over the process in place. My audit identified numerous migration balances were not reconciled. This has been more time consuming to audit, given the complex audit trails involved and to confirm there is no material impact on the financial statements. Controls are not working effectively as there remain unresolved reconciliation items outstanding seven months after migration to the new system. Monthly reconciliations of balance sheet accounts should identify and ensure significant reconciling and unreconciled items are cleared in a timely manner. These issues were not reported to me or the audit team at our regular meetings with officers. The Council's closedown plan was not robust even though good examples were provided from three other London Boroughs. Overall, my audit work concluded that there was no material misstatement. Non-material uncertainties over cash balances, debtors and creditors have been detailed in appendix 3. The Council will need to address the weaknesses identified during my audit, particularly when revisiting close down arrangements for 2011/12 onwards.

Key audit risk	Finding
3. Impact of Council savings plans The Comprehensive Spending Review has put significant pressure on the Council to reduce costs. This may result in reductions to staff. The Council will need to assess the impact on the finance process and whether accounting is required for redundancy provisions.	My audit team has reviewed accounting arrangements and year end balances to account for redundancies in accordance with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS37). My work provided assurance over the proposed redundancy provision of £1,939,000, which was not included in the draft accounts. I have agreed this amendment with management and it is included in appendix 2.
4. Continued correct accounting for service concessions The Council has five arrangements accounted for under International Financial Reporting Interpretation Committee 12: Service Concession Arrangements (IFRIC12). The Council will need to continue to account for these appropriately, and consider any changes eg new asset transfers or variations to the original agreement.	My audit team has: ■ reviewed arrangements to ensure any changes in agreements are identified and accounted for; and ■ audited year end balances. I found one error in accounting for service concessions, which were brought onto the Council's balance sheet in 2009/10, relating to the unitary payment. The actual payment of £1.8 million was not reconciled to the £1.1 million payment in the accounting model. This revision has now been agreed to the supporting ballot, allocating ownership between the Council and the contract operator. The allocation of ownership provides the basis for allocating rents, the unitary payment and the liability. The amendment increased the unitary payment and the year end liability. The Council entered into phase two of its Housing PFI in 2010/11. My audit work has uncovered inconsistencies in the valuation of the 2010/11 assets between the operator model and the internal valuer. I also identified that the asset sales on the new non HRA housing PFI had not been accounted for. Following my audit, the Council have revised the accounting model and I reviewed and agreed the revised amendments. The updated entries are included in the revised financial statements. The amendments are detailed in appendix 2.

Key audit risk	Finding
5. Council dwellings - Impairments The Department for Communities and Local Government (CLG) published 'Stock Valuation for Resource Accounting - Guidance for Valuers 2010' which the Council is required to follow. The key impact of this on the Council was the reduction in the Social Housing Adjustment Factor from 37 per cent to 25 per cent. The Council reduced the valuation of its properties by £234.6 million which was treated as an impairment charge to the Comprehensive Income and Expenditure Statement.	I reviewed the calculation to CLG guidance and the accounting treatment. My work identified a misclassification of the impairment. I have agreed this amendment with management and it is included in appendix 2.
6. Pension changes The Council was required to change the basis for calculating the measure of price inflation for public sector schemes from April 2011. The Council is now required to use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). This change affects the valuation of pension liabilities and as a result there was a credit of £117.9 million to the Consolidated Income and Expenditure Account.	I reviewed the Council's accounting treatment and the actuarial valuations. My work identified a misclassification of the past service cost. I have agreed this amendment with management and it is included in appendix 2.

Recommendations

R3 Provide financial statements for audit that include all relevant accounting entries for the year under review.

R4 Manage year end closedown against a robust close down plan, which contains clearly identified roles, responsibilities and target dates.

R5 Maintain and collate working papers to support the preparation and audit of the financial statements on a timely basis.

R6 Review in year changes in to PFI agreements and the accuracy of accounting entries on an annual basis.

R7 Ensure quality control and internal review processes are part of the monthly and year end close down process.

Financial statements

Significant weaknesses in internal control

The reported weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

In my interim report to the Audit Committee in February 2011, I reported weaknesses over the internal controls relating to journals, cash and bank, accounts payable, council tax, NNDR and IT. Management agreed recommendations to implement controls before year end. These will need to be revisited following on from audit findings below. I identified the further internal control weaknesses during my audit of the financial statements which I reported to the Committee on 22 September 2011. For completeness, I summarise these below.

Internal control issues and our findings

Description of weakness	Impact
1. Cleansing of data post migration	
My sample testing has identified unreconciled migrated balances throughout the audit. This includes debtors, creditors and bank. These items have complex audit trails and require the knowledge of specific individuals to resolve.	Unreconciled balances may contain income and expenditure not properly recorded in the financial statements. The integrity of the migration controls are undermined by not ensuring controls are properly reconciled prior to, and following, the migration of balances to the new system. My sample testing of debtors and creditors identified numerous old balances from the migration. I was unable to gain assurance over these balances, these include debtors of £5,419,000 and creditors of £5,603,000.
2. Main bank reconciliation	
The bank reconciliation provided to audit for 31 March 2011 included £6.6 billion of gross outstanding items. Not all the outstanding items are proper bank reconciliation items, and included reconciling balances.	The effectiveness of the bank reconciliation as a control is undermined by the large outstanding items and not reconciling to the closing bank statement balance. Unreconciled balances may contain income and expenditure not properly recorded in the financial statements.

Description of weakness	Impact
The bank reconciliation was for the transactions processed from 1 September using a nil starting balance. This is opposed to importing the starting bank reconciliation and reconciling to the closing bank statement balance of the relevant periods. This has contributed to unreconciled migrated balances not being cleared in a timely manner.	The most recent version (version 36 received on 24 October 2011) I audited included £393,000,000 of gross outstanding items. It has taken some time to provide support for these reconciling items in order to complete my audit work and gain the necessary assurances.
3. Management and analytical review of the balance sheet I have not been able to obtain appropriate support and explanations for year on year change in debtors and creditor balances.	Lack of review and understanding over debtors and creditor balances may lead to material errors in the financial statements. My testing identified cumulative material errors within debtor and creditor balances. Cumulatively material errors have been amended and some uncertainties have arisen from my sample testing.

Recommendations

R8 Clear the remaining unreconciled migrated balances in debtors and creditors.

R9 Clear material outstanding items within reconciliation controls in a timely manner on the bank reconciliation.

R10 Reconcile the bank account balance in the general ledger to the bank statement.

R11 Ensure managements overall analytical review of the financial statements includes debtors and creditors.

I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

This year has been challenging for local government with the introduction of IFRS. Given the scope and depth of disclosures required by IFRS, there was an increased likelihood of disclosure errors in the first year of IFRS implementation. Notwithstanding these challenges, a comparison with other London Boroughs has indicated a significantly higher number of disclosure errors have been indentified within the Council's financial statements. Many of the errors relate to the Movement in Reserves statement.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
1. Disclosures in the financial statements The initial draft financial statements did not meet all the disclosure requirements of the CIPFA Code of Practice on Local Authority accounting. Various omissions and additions to disclosures have been agreed arising from my audit. The incomplete accounts (PFI and school leases) highlight the pressure the Council was under to complete the financial statements on time. This pressure has minimised the positive impact of potential self review of financial statements against disclosure checklists prior to audit.	Agreed amendments have been summarised and detailed below. ■ Various notes were omitted from the financial statements, including: – material estimates included in the financial statements; – key judgements and sources of estimation uncertainty; – events occurring after the balance sheet date (the Council stated that there were none); – Group Movement in Reserves Statement; and – 1 April 2009 transitional IFRS group balance sheet. ■ Some disclosure notes were incomplete, or not fully compliant with the CIPFA Code of Practice, for example: – the explanatory foreword to the financial statements did not offer a commentary on the Council's financial position, the major influences affecting the Council's income and expenditure and cash flow, or an understandable guide to the most significant matters reported in the financial statements; – related party transactions note did not disclose income and expenditure, or debtor and creditor balances, with related parties in all cases; – financial instruments notes 15 and 50 did not include all instruments, such as debtors, creditors and cash. Notes also required more information regarding assumptions applied in valuing financial instruments; – insufficient commentary was included regarding the transition from UK GAAP

Issue	Findings and recommendations
	accounting to International Financial Reporting Standards; and – Contingent Liabilities disclosed were not in accordance with IAS37 ■ I found that the following disclosures were also incomplete: – the Council did not compile a note on contractual commitments for the acquisition of property, plant and equipment; – disclosures regarding the valuation of property, plant and equipment were incomplete; – disclosure on provisions did not include information regarding expected timing of outflows, and any uncertainties connected to this; – discount rate used on IAS19 liability was not disclosed; and – group accounts disclosures were not complete, including details on how group financial statements were compiled, accounting policy harmonisation, and consideration of other group entities. ■ I also found the following more minor disclosure errors: – no disclosure of the nature and purpose of reserves; – de minimis level for accounting for property, plant and equipment was not disclosed in accounting policies; – no reconciliation was included between the total of future minimum lease payments on finance leased assets at the Balance Sheet date, and their present value; – no details were included regarding the revaluation of investment property. ■ The general presentation of the financial statements was poor, including the above omissions. ■ I found various minor presentation amendments including additions, agreement to supporting notes, note references, typographical errors, correct dates and years.

Recommendations

R12 Produce draft financial statements that comply with requirements of IFRS and CIPFA Code.

R13 Undertake a self review of compliance against disclosure requirements using disclosure checklists (available from CIPFA and Audit Commission) as part of the Council’s year end closure arrangements.

Financial statements

Significant difficulties encountered during the audit

I have reported the significant difficulties encountered during the audit in the sections above.

Significant matters that were discussed or subject to correspondence with management

There have been no other matters I discussed with or that were subject to correspondence with management.

Letter of representation

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

Other matters

I have concluded on outstanding elector and legality issues arising during the course of my audit. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements. The matters and my findings are detailed in the table below.

Issue	Findings and recommendations
Legality of school leases	
Internal audit identified non-compliance with financial regulations regarding leases taken out by schools. The School Standards and Framework Act 1998 prohibits the use of finance leases by schools and puts restrictions on the use of operating leases. The Council performed more work on this area as a result of the introduction of IFRS. This identified finance leases with a total value of £1,719,361 at 31 March 2011. Internal audit also raised concerns that these leases did not always represent value for money.	The value of assets and leases entered into without the Council's approval, as at 31 March 2011 were: ■ Assets £914,000; and ■ Outstanding lease liability of £1,315,000. I reviewed the actions taken by the Council which were as follows. ■ Sought legal advice on possible remedies for expensive finance leases. ■ the Director of Finance and Corporate Resources has sent a letter to all schools setting out the issue, the areas of non compliance with regulations and re-iterating the requirement to comply with financial instructions. ■ The Director of Finance and Corporate Resources has addressed school governors and head teachers to explain the issues, offer help and support in complying with financial instructions and regulations and to those wishing to take further action in relation to onerous leases. ■ The Children & Families department are working with schools to help them exit from onerous lease agreements. ■ The Council is working with other Councils with similar issues to identify what further legal action can be taken.

Issue	Findings and recommendations
	I have concluded that the Council has appropriate arrangements in place to identify and act upon instances of non compliance with regulations. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements. Based on the evidence currently before me, I do not intend to take any further action.
Teachers pay An elector has raised concerns about a school which includes concerns about compliance with school teachers pay and conditions.	In considering my response I have met with the Head of Internal Audit and reviewed the controls the Council has in place to enable it to discharge its responsibilities in respect of schools. Internal audit have a programme of control reviews at schools and report its findings to the school, management and the Audit Committee. Internal audit have identified and highlighted concerns over teachers pay. This is where compliance with the national School Teachers Pay and Conditions Document 2010 (STPCD) has not been satisfied as identified in some of the reviews it has performed in 2010/11. Every school has been written to reminding them of the requirement to comply with STPCD and providing advice on the new 2011 release. Additionally, those schools who have been identified through audit as having specific problems have been written to separately advising that they must regularise the pay for their head teachers and any other staff. I have taken into account the previous review I have undertaken in this area and considered the actions the Council has taken against previous recommendations. I am satisfied that appropriate arrangements are in place to discharge its responsibilities and I do not propose take any further action.
Blue badge fraud An elector raised concerns regarding to a possible fraud related to blue badge use.	I have reviewed the arrangements over blue badge abuse. There are various arrangements to mitigate misuse of blue badges including compliance checks, follow up of referrals and specific site visit and checks. I am satisfied that appropriate arrangements are in place to guard against fraud and therefore I do not propose take any further action.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I have completed my work on the value for money conclusion. I confirm that overall the Council has maintained adequate arrangements to secure economy, efficiency and effectiveness in the use of its use of resources. However, looking forward there are significant financial challenges ahead, with the risks to Council's financial stability continuing to increase. The Council's general reserves are low and earmarked reserves are falling, whilst at the same time demand for services is increasing and the level of savings required in the coming years is significant and unprecedented. The maintenance of strong financial control will be essential if the Council is to achieve its plans. When setting its budget for 2012/13, the Council must continue to have regard to the increasing level of risk in setting its reserves.

Value for money criteria and my findings

Criterion	Adequate arrangements	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	Yes	The Council understands the financial challenges and risks it faces. Executives and non-executives provide constructive scrutiny on financial matters and there is an effective Audit Committee in place. The Council has updated its medium term financial strategy to reflect the savings required over the next four years. The Executive receive regular finance reports that provide a clear link between budget, in-year forecasts and the year-end forecast. For 2010/11 the Council made an unplanned overspend against its budget of £300k, which reduced the level of General Fund reserves. There were large overspends in Housing and community care and Children and Families, which were partially offset by savings in Central costs eg underspending on One Council costs and reduced levies from bodies such as the London Pensions Fund Authority for historic pension deficits on demised bodies. To achieve a balanced financial position in 2011/12, the Council's budget contains an overall savings plan of £41.7 million, of which £25 million are to be delivered from the One Council programme. A large proportion of the One Council programme savings relies on service re-design and management of demand for services, which can take time to implement, increasing the risk of timely achievement. At the end of September 2011 the Council's budget management report is forecasts an £1.7 million overspend, with £31.1 million savings having been delivered to date. The overspend will be managed through efficiencies in other budgets within the relevant departments.

Criterion	Adequate arrangements	Findings
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Yes	The Council has proper arrangements in place to challenge how it secures economy, efficiency and effectiveness. Each Council reports its performance through a departmental scorecard covering performance, finance, One Council projects and key risks and issues. The Council benchmarks its performance against other Councils and has used this as a basis to develop savings and improvements through its One Council transformation programme and to challenge departmental performance and savings programmes. The One Council Programme covers the four year period 2010-2014. We performed our second review of the programme during 2010/11. The main objective of the programme is to achieve budget savings of up to £94 million by 2014/15 while raising performance, maximising efficiency, creating a council that looks and feels like one cohesive organisation, creating new flexible ways of working, stopping lower priority activities, generating increased income, improving procurement and property management and creating a council fit to deliver the members' corporate strategy. Our key findings are: ■ good progress has been made on the project; ■ effective governance arrangements are in place; ■ risks to the delivery of the programme include: – capacity; – accurate monitoring of financial benefits; – transparency of revisions to financial projections; and ■ introducing a systematic way to capture non-financial benefits at project level.

Criterion	Adequate arrangements	Findings
		The Council have provided an update evidencing action against our recommendations. We will review progress of the One Council programme and recommendations during our 2011/12 audit.

Recommendations
R14 Have regard to the increased level of financial risk when setting the level of Council general reserves.
R15 Review progress against action plan agreed with officers from 2 review of the One Council programme review.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no matters to report.

Appendix 1 - Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of London Borough of Brent for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Brent's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Brent put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Andrea White
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank

London SW1P 4HQ

November 2011

Appendix 2 - Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	**Nature of adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Dr Exceptional item (net cost of services) Cr Exceptional item (other operating expenditure)	Exceptional cost, arising from downward revaluation of HRA properties, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with CIPFA Code.	240,153	240,153		
Dr Exceptional item (other operating expenditure) Cr Exceptional item (net cost of services)	Exceptional cost, arising from change in CPI to RPI in calculating IAS19 pension liability, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with CIPFA Code.	117,950	117,950		

		Comprehensive income and expenditure statement		Balance sheet	
Dr Assets Cr Liabilities Dr Expenditure Cr Movement in Reserves Dr Reserves	Account for PFI entries not included in 2010/11 financial statements. This includes adjustments to account for revised Stonebridge unitary payment, revised valuation and impact of assets sales of new non HRA housing PFIs.	 4,259	 4,259	21,876 3,727	 25,603
Dr Deposits Cr Overdrafts Cr Current bank accounts	School cash and cash equivalents incorrectly allocated to current bank balances. Reallocate short term deposits held and overdrawn balances.			11,141	 6,271 4,871
Dr Land and buildings Cr Surplus or deficit on revaluation of Property, Plant and Equipment assets Cr Revaluation reserve	Error made entering Copland valuation. Reversal of incorrect downward valuation entries made.		6,000	12,685	6,685
Dr Provisions Cr Accrued leave pay	Reallocate accrued leave pay as an accrual.			9,589	9,589
Dr Bank Cr Prepayment (included in Cash and bank)	Reverse internal entry related to payment of 2011/12 school income.			9,394	9,394
Dr Creditors Cr Deferred income	DSG grant income treated as deferred income incorrectly. This related to 2011/12 and was received post 31 March 2011.			9,261	9,261

		Comprehensive income and expenditure statement		Balance sheet	
Dr HRA amortised and payment discount (HRA MIHRAS) Cr HRA amortised and payment discount (HRA I&E)	Amount incorrect included in HRA statement. To be reallocated to accounting and funding basis.	4,932	4,932		
Dr Transport income Cr Transport expense	Correction of overstatement of income and expenditure in transport services due to incorrect internal charging.	3,190	3,190		
Dr VAT control account Cr Expenditure Dr Transfer to earmarked reserves Cr Modernisation reserve	A credit balance in the VAT control account has been reversed to the I&E as this cannot be supported by evidence. The Council proposed to transfer this to the Modernisation reserve.	 2,288	 2,288	2,288	 2,288
Dr Creditors Cr Debtors	Reallocate a credit balance relating to debtors incorrectly included in creditors, relating to debtors credit noted post year end.			2,218	2,218
Dr Income Dr Creditors Cr Debtors Dr Modernisation reserve Cr Transfer from earmarked reserves	The debtors and creditor balances incorrectly included internal balances. These have been written off to the I&E. The Council proposed to utilise the Modernisation reserve for this expense.	907	 907	 1,172 907	 2,079
Dr IAS19 expenditure	Entry arising from review and correction of MiRS which confirmed	2,387	2,387		

		Comprehensive income and expenditure statement		Balance sheet	
Cr Revaluation gain (Other CI&E) Cr Interest (FIAA) Cr IAS19 income Dr MiRS	incorrect treatment of certain non-cash items				
Dr Creditors Cr HB overpayments	Cash received for housing benefit overpayments incorrectly accounted for as income in advance. Reallocated to debtors.			1,967	1,967
Dr Staff costs Cr Redundancy provision	Account for redundancy provision not included in draft financial statements.	1,939			1,939
Dr Assets Cr Liabilities Dr Reserves	Entry to restate financial statements for leases at 1 April 2009 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.			1,055 464	 1,519
Dr Assets Cr Liabilities Dr Reserves	Entry to restate financial statements for leases in 2009/10 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.			438 346	 784
Dr Liabilities	Entry to restate financial statements			1,782	

		Comprehensive income and expenditure statement		Balance sheet	
Cr Assets Dr Expenditure Cr Movement in Reserves Cr Reserves	for leases in 2010/11 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.	 917	 1,037		638 1,024
Dr Loss on disposal of non current assets Cr Difference in accounting and funding basis (MIRS) Dr Capital adjustment account Cr Non current assets	Reverse profitable disposal transaction which was double counted	676	676	676	676
Dr Creditors Cr Debtors	Eliminate related balances used to clear problems associated with introduction of purchase orders.			532	532
Dr Exceptional item Cr Investment income	Gain on investment incorrectly treated as exceptional item. Reallocate to investment income.	501	501		
Dr Unallocated receipts Cr Expenditure Dr Transfer to earmarked reserves Cr Modernisation reserve	A credit balance in debtors has been reversed to the I&E as this cannot be supported by evidence. This is the uncleared balance after reconciliation of data post 31 March 2011. The Council proposed to transfer this to the Modernisation reserve.	 463	 463	463	 463

		Comprehensive income and expenditure statement		Balance sheet	
Dr Short term provisions	Reclassification of provisions for consistency between working papers and accounts			404	
Cr Long term provisions					404
Dr Non-current assets	Amendment to correct overstatement in impairment on Stonebridge PFI assets			335	
Cr Impairment (I&E)			335		
Dr MiRS (accounting basis adj)		335			
Cr Capital Adjustment Account					335
Dr Short term debtors	Amendment to account for short term element of loan to Brent Housing Partnership			289	
Cr Long term debtors					289
Dr Teachers payroll costs	Correct understatement of year end teachers pension liability.	257			257
Cr Teachers pension accrual					
Dr Unusable reserves	Entry arising from review and correction of MiRS and agreed audit adjustments			144	144
Cr Usable reserves					
Dr Impairment	Impair capital costs related to Kingsbury Children's Centre as this will not be completed.			116	116
Cr Non current asset					
Dr Creditors	Reallocate a credit balance relating to housing rent debtors which was incorrectly included in creditors.			116	116
Cr Debtors					
Dr Impairment	The LAML balance in investment has been impaired by 96,000 to the value supported by evidence.	96			
Cr Investment - LAML					96
Dr Modernisation reserve				96	
Cr Transfer from earmarked	The Council proposed to utilise the		96		

		Comprehensive income and expenditure statement	Balance sheet
reserves	Modernisation reserve for this expense.		
Net effect of adjustments		£9,196 decrease in reported deficit	£8,387k increase in net assets

Appendix 3 - Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	**Nature of required adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Dr I&E	Accounting for five uncertainties with old debtor balances which cannot be agreed to evidence.	5,419			
Cr Debtors					5,419

		Comprehensive income and expenditure statement		Balance sheet	
Dr Creditors Cr I&E	Accounting for six uncertainties with old creditor balances which cannot be agreed to evidence.		5,603	5,603	
Dr Expenditure Cr Bank	My work on testing the outstanding items on the bank reconciliation identified some errors. I have extrapolated these errors with the following impact. To amend for the extrapolated errors would reduce the reported surplus and net assets by £1,887,000	1,887			1,887
Dr I&E – gross income Cr I&E – gross expenditure	Extrapolation of error found where expense had incorrectly been netted off against income.	946	946		
Dr Depreciation Cr Fixed assets	Accounting for understatement of depreciation due to anomaly noted on a recently revalued asset. This includes actual and extrapolated errors.	586			586
Dr CAA Cr I&E (Impairment of Housing stock)	Account for uncertainty over an item in the revaluation loss		1,016	1,016	
Cr I&E Dr Reserves	Account for uncertainty on reconciliation between central reporting and CIES statement		476	476	
Dr Prepayments Cr I&E – gross expenditure	Extrapolation of item recorded as expense in 2010/11 rather than as a 2011/12 prepayment.		388	388	

		Comprehensive income and expenditure statement		Balance sheet	
Cr Non-current assets Dr I&E - depreciation	Possible error arising from non-adoption of component accounting in line with LBB accounting policies.	 372			372
Dr Cash and Bank Cr Debtors	Part of council tax income paid into the Co-op bank account in 2010/11 was not accrued for in the accounts.			228	 228
Net impact		£781,000 increase in reported deficit		£2,273,000 decrease in net assets	

Appendix 4 - Draft letter of representation

To: Andrea White

District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

London Borough of Brent and Pension Fund – Audit for the year ended 31 March 2011

We confirm to the best of our knowledge and belied, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

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

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the appendix.

Supporting records

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

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

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

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

Law, regulations, contractual arrangements and codes of practice

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

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

There have been no:

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

We also confirm that we have disclosed:

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

Post balance sheet events

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

Compensating arrangements

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

We confirm that this letter has been discussed and agreed by the Audit Committee on 22 September 2011

Signed …………………………	Signed …………………………	Signed …………………………
Name: Gareth Daniel	Name: Clive Heaphy	Name: Stephen Wood
Position: Chief Executive	Position: Director of Finance and Corporate Resources	Position: Chair of the Audit Committee

Date …………………………

Appendix 5 - Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 - Action plan

Recommendations	
Recommendation 1	
Review of the financial reporting and control function and make the changes required to ensure it is fit for purpose.	
Responsibility	Director of Finance and Corporate Services
Priority	High
Date	31 December 2011
Comments	We are undertaking a review of the skills and capacity required within the financial reporting and control function. This will focus on ensuring that all the activities in producing the 2011/12 accounts are allocated to individuals with clear monitoring and tracking of delivery through a robust project plan with clear deadlines and accountabilities.
Recommendation 2	
Approve, sign and publish audited accounts in accordance with section 8 of The Accounts and Audit (England) Regulations 2011.	
Responsibility	Director of Finance and Corporate Services
Priority	High
Date	30 September 2012
Comments	Building on lessons learned from 2010/11 audit process the timetable for 2011/12 has been drafted which is in accordance with statutory requirements. This will be shared with the Audit Commission for feedback to ensure robust plan is in place with clear deadlines and accountabilities.

Recommendation 3	
Provide financial statements for audit that include all relevant accounting entries for the year under review.	
Responsibility	Deputy Director of Finance
Priority	High
Date	30 June 2012
Comments	Following implementation of IFRS the closedown timetable for 2011/12 sets out in detail the key activities and milestones to ensure comprehensive coverage in the accounts including finance leases.

Recommendation 4	
Manage year end closedown against a robust close down plan, which contains clearly identified roles, responsibilities and target dates.	
Responsibility	Deputy Director of Finance
Priority	High
Date	30 June 2012
Comments	Robust closedown plan has been drafted and will be shared with the Audit Commission for feedback. The closedown process will be actively project managed to ensure progress remains on track and that risks and issues and addressed.

Recommendation 5	
Maintain and collate working papers to support the preparation and audit of the financial statements on a timely basis.	
Responsibility	Head of Financial Management
Priority	High
Date	30 June 2012
Comments	We will confirm working paper requirements with the Audit Commission. The closedown timetable has built in activity to monitor the creation and review of working papers to ensure that these support the entries in the financial statements. We are considering the benefits of inviting a ‘critical friend’ to work with us during Q4 to provide quality assurance.

Recommendation 6	
Review in year changes in to PFI agreements and the accuracy of accounting entries on an annual basis.	
Responsibility	Head of Financial Management
Priority	Medium
Date	30 April 2012
Comments	Closedown plan includes all the activities relating to reviewing PFI agreements for changes.

Recommendation 7	
Ensure quality control and internal review processes are part of the monthly and year end close down process.	
Responsibility	Head of Financial
Priority	High
Date	These have commenced
Comments	The maintenance of a comprehensive record of reviews undertaken, duly authorised together with the reporting of key internal control processes reported to Strategic Finance Group from November 2011 onwards. This sets out latest position and areas for further action.

Recommendation 8	
Clear the remaining unreconciled migrated balances in debtors and creditors.	
Responsibility	Head of Financial Management
Priority	High
Date	31 December 2011
Comments	This work has already commenced and will be completed by the end of December 2011.

Recommendation 9	
Clear material outstanding items within reconciliation controls in a timely manner on the bank reconciliation.	
Responsibility	Head of Financial Management
Priority	High
Date	31 January 2012
Comments	Specific project underway to clear residual items within the system. The groundwork for this was undertaken as part of the 2010/11 audit process. Once completed this will enable full system reconciliations.

Recommendation 10	
Reconcile the bank account balance in the general ledger to the bank statement.	
Responsibility	Head of Finance Service Centre
Priority	High
Date	31 January 2012
Comments	Ongoing reconciliation taking place during 2011/12. Full system reconciliation report will be in place once project referred to above completed and will be maintained monthly.

Recommendation 11	
Ensure managements overall analytical review of the financial statements includes debtors and creditors.	
Responsibility	Head of Financial Management
Priority	Medium
Date	31 May 2012
Comments	Closedown plan includes analytical review of all balance sheet items including debtors and creditors. Similar process will be adopted monthly.

Recommendation 12	
Produce draft financial statements that comply with requirements of IFRS and Cipfa Code.	
Responsibility	Finance Manager (Financial Reporting)

Priority	High
Date	31 May 2012
Comments	Updated guidance will be reviewed when published and the Finance Manager will agree all requirements including new and amended notes with the Audit Commission in advance of the audit.

Recommendation 13

Undertake a self review of compliance against disclosure requirements using disclosure checklists (available from Cipfa and Audit Commission) as part of the Council's year end closure arrangements.

Responsibility	Finance Manager (Financial Reporting)
Priority	High
Date	31 May 2012
Comments	Updated disclosure checklists will be reviewed and requirements agreed with the Audit Commission in advance of the audit. All requirements will be allocated to specific officers to ensure information produced on time.

Recommendation 14

Have regard to the increased level of financial risk when setting the level of Council general reserves.

Responsibility	Director of Finance and Corporate Services
Priority	High
Date	27 February 2012
Comments	The budget setting report to full Council will set out the financial risks facing the Council. This will provide a basis for the calculation of non-earmarked reserves in accordance with the statutory requirement for the Director of Finance and Corporate Services to advise the Council.

Recommendation 15

Review progress against action plan agreed with officers from 2 review of the One Council programme review.

Responsibility	Director of Strategy, Performance and Improvement
Priority	High
Date	Immediate

Comments	Progress against the action plan is reviewed periodically at the One Council Programme Board

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0844 798 7070

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