

Annual Audit Letter

London Borough of Brent

Audit 2010/11



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	◆
Proper arrangements to secure value for money	◆

- The draft financial statements presented for audit contained five material errors and a large number of non-material and disclosure errors, the majority of which were amended.
- There are significant weaknesses in the design and operation of internal controls supporting the financial reporting function that need to be addressed.

Audit opinion and financial statements

- I issued an unqualified audit opinion on the Council's financial statements, including the pension fund, on 30 November 2011.
- It has been a particularly difficult year for the Council, implementing new financial systems and International Financial Reporting Standards (IFRS) whilst dealing with structural change, staff losses and a highly challenging budget settlement.
- The Council struggled to deliver complete and compliant financial statements on a timely basis.
- I was therefore unable to complete my audit by the target date, 30 September 2011.

Value for money

- I considered whether the Council is managing and using its money, time and people to deliver value for money.
- I issued an unqualified value for money conclusion on 30 November 2011, confirming the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

Current and future challenges

It is a challenging time for all public sector bodies. The pace and scale of change is unprecedented. Like all local authorities, the Council is facing severe cuts to funding and, at the same time, greater demand for local services. Significant changes are required over the next few years and tough decisions will be required to make them. The way services are delivered may need to change and new, more collaborative ways of working will be needed. The Council's transformation programme is helping it prepare and make the savings required for future financial stability. A key challenge for the Council is to ensure that strong governance arrangements and internal controls are maintained during a period of significant change.

Economic pressures on the public sector and achieving savings

Following the announcement of reductions in grant funding by government in May 2010, the Council approved an in-year savings plan of £15 million. All planned savings were achieved in 2010/11 and the Council reported a small overspend for the year resulting in a decrease in its general fund reserves by £1.3 million to £7.5 million. General fund reserves decreased by £1.9 million as a result of adjustments following the audit of the Council's financial statements.

The medium term financial strategy (MTFS) was updated to include £106.7 million savings over the next four years to 2014/15. £41.7 million of savings have been included in the budget setting strategy for 2011/12. The Council is currently reviewing its approach to deliver the residual savings of £65 million between 2012/13 and 2014/15. The Council has detailed plans to support the savings it intends to make during 2011/12 and is currently reporting a small forecast overspend of £1.8 million at month 6. For 2012/13 onwards, the Council has developed a number of proposals for making the £65 million savings required and is currently agreeing the approach with members. Members are due to make some key decisions on 2012/13 savings over the next few months.

Looking forward, the achievement of such a significant savings plan whilst continuing to deliver quality services will remain challenging. There are continuing pressures on the Council's finances, including the provision of housing, increasing the demand for services such as adult social care and funding required for the Council's pension scheme.

Transformation of services

The Council recognises challenges facing local government will require transformation of services.

The Council has developed its One Council Programme to support the savings required in the MTFs and to support the transformation required to deliver new ways of working. The programme contains 21 transformation work streams including future customer services, finance modernisation, a structure and staffing review, strategic procurement review, income maximisation and adult social care commissioning. The progress of each of the transformation streams is monitored by the One Council overview and scrutiny.

The Council are exploring more collaborative procurement arrangements with other local authorities, the NHS and other public sector organisations. The Council is a lead member of the West London Alliance (WLA). Through the WLA the Council aims to secure more economies of scale focusing on adult social care, children's social care, environmental services and corporate supplies. To date, significant savings have been achieved in adult social care and there is ongoing work to deliver future savings in special education needs and passenger transport.

The Council is also active within the London Councils network, and is reviewing options to make savings in support services such as Human Resources and Finance.

With the transfer of public health responsibilities to local authorities, the Council will take on the responsibility for improving local public health. This will require development of services in partnership with local NHS bodies.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

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.

I issued an unqualified opinion on the financial statements of the Council and Pension Fund on 30 November 2011 following approval of the statements by the Audit Committee on 25 November 2011. The draft financial statements were submitted for audit on 30 June 2011 in line with the due date. The draft financial statements presented for audit contained:

- 5 material errors;
- 26 non-material errors; and
- a significant number of disclosure errors within the notes to the financial statements.

The Council amended the financial statements for these errors which decreased the total consolidated income and expenditure deficit by £9.2 million.

My audit also identified a significant number of errors and uncertainties, which management did not amend. I obtained explanations from management and the Chair of the Audit Committee for not adjusting the amendments which I accepted. The net impact of all the unadjusted errors and uncertainties would have been to increase the reported deficit by £0.8 million.

International Financial Reporting Standards

The Council had to produce its financial statements in accordance with International Financial Reporting Standards (IFRS) for the first time in 2010/11. This involved significant changes to the financial statements, particularly relating to accounting treatment of finance leases, segmental reporting, componentisation of fixed assets, government grants, accruals for amounts in connection with staff leave, and more extensive and detailed disclosures within the financial statements.

My audit included a review of the Council's arrangements in applying IFRS, detailed testing on re-stated 2009/10 balances as well as 2010/11 balances and ensuring that all required disclosures had been made.

The Council struggled to comply with the requirements of IFRS in the first year. The draft financial statements presented for audit did not include the accounting entries for finance leases, private finance initiative (PFI) agreements and a large number of disclosures were incorrect or incomplete.

The new accounting system and financial structures

During the year, the Council introduced a new accounting system which required a shift from highly departmentalised financial systems and processes to more centralised arrangements. The transition to the new system was not well managed. Key controls were not properly reconciled before or after the change to the new system. Systems and processes to cope with the new more centralised way of working were not in place and management did not respond quickly to the weaknesses identified by Internal Audit.

This lack of control led to a large number of unexplained, reconciling balances included within the Council's financial statements, which my audit testing identified. Before I was able to complete my audit the Council was required to carry out a significant amount of work to identify the nature of the balances. Work on the balances found:

- payments not recorded in the cash book;
- amounts paid and received not matched to the original invoices raised or received; and
- payments that had been subsequently cancelled.

Significant weaknesses in internal control

My audit identified weaknesses in the Council's internal control arrangements over journals, cash and bank, accounts payable, council tax, NNDR, IT and over the implementation of the new financial system.

I reported the detailed findings to the Audit Committee in February 2011 and in my Annual Governance Report to the Audit Committee on 24 November 2011. I have made fifteen recommendations to improve the Council's systems, processes and year-end reporting arrangements which the Council has accepted.

Recommendation

R1 Monitor implementation of management's action plan to address control weaknesses.

Overall conclusion from the pension fund audit

In my Pension Fund Annual Governance report, I reported that the financial statements were submitted for audit by the due date, were substantially complete, supported by good working papers and were free from material error. I gave an unqualified opinion on the Pension Fund annual report on 30 November 2011.

Other matters

During 2010/11 two matters were brought to my attention by electors, compliance with teachers pay conditions in schools and the use of blue badges. I have shared this correspondence with the Director of Finance and Resources and, where appropriate, carried out reviews. I also reviewed the Council's response to the non compliance of financial regulations in relation to school leases, which had been identified by Internal Audit. None of the matters raised or reviewed, required me to exercise my powers as the appointed auditor and there are no issues to report to you.

At the time of writing this report, my audit of the Council's 2010/11 grant claims and returns is in progress. Of the nine which require audit certification, eight have been certified and submitted to the appropriate grant paying body. The remaining claim and return is not due until the end of December 2011. I will report more fully on the outcome of my grant claim audits in January 2012.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) 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 overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My value for money conclusion is based on evidence that confirms the Council has sound financial planning and monitoring arrangements in place, and it has the leadership and governance structures to enable it to deliver its plans. However, there are significant risks to achieving the scale of savings required. The Council's medium term financial strategy has identified the need for a further £65 million savings over the next three years. These substantial savings will have to be delivered against a background of increasing demand for council services and reduced management capacity. Clear focus on delivering operational and financial priorities will be needed to ensure financial plans are delivered and the effectiveness of services is maintained. The Council's general reserves are low and earmarked reserves are falling while pressure on the Council's resources 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.

Members should provide clear steer on their priorities, have a key role in monitoring and challenging the achievement of plans and ensuring corrective action is taken at an early stage to address concerns.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>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.</p>	<p>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.</p> <p>For 2010/11 the Council made an unplanned overspend against its budget of £300,000, 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 e.g. under spending on One Council costs and reduced levies from bodies such as the London Pensions Fund Authority for historic pension deficits on demised bodies. The position was reversed, and general fund reserves increased, following the correction of errors found in the Council's financial statements following its year-end audit.</p> <p>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 forecasts a £1.8 million overspend with £31.1 million of savings having been delivered to date.</p>

Criterion

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.

Key messages

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 a significant proportion of the required budget savings 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 as follows.

- 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; and
 - transparency of revisions to financial projections.
- Introducing a systematic way to capture non-financial benefits at project level.

The Council have provided an update that the recommendations have been acted upon. We will review progress of the One Council programme and recommendations during our 2011/12 audit.

Progress on previous recommendations

I set out below progress on recommendations included in my 2009/10 annual audit letter and will continue to monitor progress during the coming year. Overall, some progress has been made but further action is needed to secure improvements in financial reporting, procurement and embedding risk management across the Council.

Progress on 2009/10 annual audit letter recommendations

Recommendation	Progress
Improve year-end financial reporting arrangements across the Council.	The position has deteriorated in the current year. The implementation of IFRS, change in financial system and restructuring of finance has stretched capacity and led to financial statements completed in November, after the 30 September 2011 statutory deadline.
Strengthen risk management, internal control and performance management arrangements in respect of foundation schools.	There is evidence of an improved focus in this area. The Council have continued with their work, including internal audit reviews. This has highlighted concerns around teachers pay and leases within schools, and action is being taken. This includes Director of Finance liaison with schools, increased engagement from Children and Families on difficult issues and legal advice where appropriate.
Embed good procurement practice across the Council.	Procurement is part of the One Council programme. A number of the One Council projects include savings from the procurement of services. The latest One Council monitoring report has risk rated the procurement project as red. There have been delays in developing detailed plans to achieve the procurement savings because it has taken some time to appoint a suitable procurement lead.
Embed good risk management arrangements across the Council.	Risk management arrangements have not improved significantly. There is scope to embed one clear process throughout the Council, enabling clear governance from members.

Recommendation

R2 Review the adequacy of arrangements to improve and embed good procurement, risk management, internal control and financial reporting arrangements across the Council.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Corporate Resources. I will present this letter at the Audit Committee on 30 November 2011 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee letter	June 2010
Audit opinion plan	March 2011
Interim audit report	June 2011
One Council follow up report	September 2011
Annual governance report	November 2011
Audit opinion	November 2011

The Council has taken a positive and constructive approach to my audit. I wish to thank the Council staff for their support and co-operation during the audit.

Andrea White
District Auditor

29 November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit scale fee (note 1 & 2)	538,000	488,000	50,000
Pension fund scale fee	£35,000	£35,000	-
Non-audit work	-	-	-
Total (note 3)	£573,000	£523,000	£50,000

Note 1: I charged an additional audit fee of £50,000 as I carried out more work than planned. I carried out significant further work in debtors, creditors and cash to confirm initial testing errors and uncertainties found did not lead to a material error in the financial statements.

Note 2: The Audit Commission issued a rebate of £15,771 to the Council on the planned 2010/11 audit fee. This was paid from Audit Commission reserves.

Note 3: In addition to the above fees, I estimate that the fee for my work on certification of grant claims and returns will be £87,500. I will report the final fee for this work after my work is complete.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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.

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.

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.

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