

Annual governance report

London Borough of Brent

Audit 2011/12



Contents

Key messages	4
Before I give my opinion and conclusion	6
Financial statements	7
Qualitative aspects of accounting practice	13
Anti-fraud and corruption arrangements	13
Correspondence	14
Exercise of Public Rights and Certification of the Financial Statements.....	14
Value for money	15
Fees	20
Appendix 1 – Draft independent auditor’s report	21
Opinion on the Authority financial statements	21
Opinion on the pension fund financial statements	22
Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources	24
Appendix 2 – Corrected errors	26
List of the more significant amendments to disclosure notes	30
Appendix 3 – Draft letter of management representation	31
London Borough of Brent - Audit for the year ended 31 March 2012	31

Appendix 4 – Glossary	34
Appendix 5 – Action plan	37

Key messages

This report summarises the findings from the 2011/12 audit, which is substantially complete. It includes the messages arising from my audit of the Council's financial statements and the results of the work I have undertaken to assess its arrangements to secure value for money in the use of resources.

Financial statements

- Subject to the satisfactory completion of my remaining work, I intend to issue an unqualified audit opinion on the financial statements.
- Management has amended the financial statements for the errors (other than those of a clearly trivial nature) identified during the audit.
- Working papers to support the draft financial statements were presented in a timely manner, and were generally of good quality.
- I am pleased to note that the Council has taken action to address the recommendations in my 2010/11 Annual Governance Report. There has been a significant improvement to the Council's year end financial control and closure process. However, the number of errors, while not fundamental to the main statements within the accounts, remains high and further improvements to closure processes should be made for 2012/13.

Value for money

- I intend to conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
- The Council demonstrated sound financial management to meet the 2011/12 budget and make the planned contribution of £2.5 million to the General Fund Balance. Looking forward, Members should continue to monitor financial performance closely to ensure the Council achieves its short-and medium-term financial plans and continues to improve its financial resilience in a challenging economic climate.
- The Council should continue to improve arrangements to maintain economy, efficiency and effectiveness through embedding the developments evident in risk management and procurement.

Certificate

- I expect to certify the Council's accounts shortly after giving the opinion to enable completion of my work on the Council's Whole of Governance Accounts return (by 5 October 2012 at the latest).

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Committee to:

- note the adjustments made to the financial statements as a result of the audit;
- approve the letter of representation (Appendix 3) on behalf of the Council, before I issue my opinion; and
- agree the Council's response to the proposed action plan (Appendix 5).

Financial statements

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

Opinion on the financial statements

Subject to satisfactory clearance of my remaining work, I plan to issue an audit report including an unqualified opinion on the financial statements, by 30 September 2012.

Appendix 1 contains a copy of my draft audit report.

The main areas of work to be completed as at 17 September 2012 are:

- completing our review of the Council's Group Accounts
- agreeing the revised Annual Governance Statement
- finalising the audit of creditors
- receipt of the letter of management representation
- audit closure and review processes.

Uncorrected errors

I did not identify any errors during my audit that management has declined to adjust.

Corrected errors

I set out below and in Appendix 2 the errors and amendments identified and corrected by management during the audit. One material error was identified during the course of my audit, the details of which are set out below. One non-trivial error produced a change in the Council's financial position, increasing the General Fund Reserve by £152k. Otherwise, the amendments made do not change the Council's overall financial position.

Material error: misclassification of Other Housing Services Income and Expenditure

In the Comprehensive Income and Expenditure Statement (CIES), £84.3 million of income and expenditure was erroneously classified as 'Central Services to the Public' which should have been classified as 'Other Housing Services'. The error occurred during a complex exercise to map codes between service types for the production of the financial statements. The statements have been amended and there is no impact on the total Cost of Services reported in the CIES or the Balance Sheet.

Non-trivial errors

I identified a number of non-trivial errors and amendments during my audit. These are detailed in Appendix 2 and include nine issues which resulted in amendments to the primary statements (Balance Sheet or CIES) with the remainder relating to disclosures in the notes to the financial statements.

Significant risks and my findings

I reported to you in my 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Closedown arrangements and project management</p> <p>The 2010/11 audit was completed two months later than the due date and required substantial inputs from both the finance and audit teams to complete, resulting in additional audit fees.</p> <p>Weak closedown arrangements and poor project management contributed to the delay. If corrective action is not taken quickly and closedown arrangements are not improved, there is a risk of a qualified opinion and additional fees on our 2011/12 audit.</p>	<p>The Council has taken action to address the recommendations in my 2010/11 Annual Governance Report. There has been a significant improvement to the Council's year end financial control and closure processes and I received a complete set of financial statements by the due date. I was provided with good documentation to support the entries in the statements and officers worked well with my audit team to ensure all audit queries were addressed. However, as the number of errors noted in this report indicates, there is scope for further improvements, which will be needed to permit an efficient audit and minimise the risk of additional fees in 2012/13.</p> <p>The preparation (and audit) of Brent's financial statements is a highly complex and technically demanding process. The Council continues to rely on a small number of finance staff who have experience in technical areas such as asset and Private Finance Initiative (PFI) accounting. The Council should be alert to this position and ensure it maintains sufficient capacity to facilitate the efficient preparation of future statements.</p>
<p>Valuation of Property, plant and equipment (PPE)</p> <p>The valuation of PPE is based on estimation techniques applied by professional valuers and therefore inherently subjective. The Council uses its internal valuer, with support from external valuers, to value PPE.</p> <p>The value of PPE is £1.247 billion and relatively small changes in the assumptions and variables informing the valuation will have a material impact on the financial statements. A small error in the mechanics of valuing</p>	<p>I reviewed management controls over establishing valuations, including arrangements for instructing your valuers.</p> <p>I carried out procedures to allow me to rely on the work of the valuers.</p> <p>I have tested accounting treatments employed within the financial statements.</p> <p>I am satisfied that PPE is fairly presented in the Council's financial statements.</p> <p>My sample testing identified a number of records in the asset register for assets where evidence of existence or ownership could not be found. Officers adjusted the financial statements for the items identified in my sample, however, by extrapolating the error</p>

Risk

PPE will therefore present a risk of a material error in the financial statements.

IAS19: Defined benefit pension liability

The defined benefit pension liability (IAS19) is a material item in the financial statements which is valued at fair value. The valuation is an estimate and therefore inherently subjective. The Council uses an actuary to determine fair values for IAS19 at year end.

The value of the Council's pension liability is £1.079 billion and relatively small changes in the assumptions and variables informing the actuarial assessment will have a material impact on the financial statements. A small error will therefore present a risk of a material error in the financial statements.

Housing Revenue Account (HRA) reform

The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012. The Council received a one-off settlement from central government on 28 March 2012 to mitigate its HRA debt. The complexity, magnitude and timing of the HRA reform presents a risk of error in the financial statements.

Finding

rate over the population, I estimate as much as £1.8 million of similar redundant records could remain within the register. The financial statements have not been amended in respect of this estimate and I do not intend to qualify the financial statements based on the extrapolation of my sample findings.

I recommend a review of the asset register is carried out before next year to correct for these anomalies.

I reviewed management controls over establishing actuarial valuations, including arrangements for instructing your actuary.

I carried out procedures to allow me to rely on the work of the actuary.

I am satisfied that the defined pension liabilities reported in Note 48.2 to the financial statements of £982.3 million (funded) and £97.8million (unfunded) are fairly presented in the Council's financial statements.

The Council received a one-off settlement of £198 million to repay HRA debt along with £74 million of associated early retirement costs.

I reviewed management's arrangements for accounting for the HRA self financing settlement payment, and agreed the accounting treatment to CIPFA guidance.

I agreed the settlement payment to the amount specified in the Settlement Payments Determination 2012.

I agreed details of the loan redemption to supporting documentation.

I am satisfied that the Council accounted for these transactions correctly.

Risk

Schools – treatment of assets

The governance arrangements in place for different classes of schools are the determining factors in whether they are accounted for within the Council's financial statements or not. This is a key area of judgement for the Council in preparing its financial statements, and recent accounting guidance indicates that Foundation Schools should be excluded from the Council's financial statements.

Given the material values involved and nature of judgements required to determine the accounting treatment, there is a risk of material misstatement.

Heritage assets

The 2011/12 Code adopts the requirements of Financial Reporting Standard 30: Heritage Assets (FRS 30). As a result, where information on cost or value is available, heritage assets must be reported on the Balance Sheet. Disclosures are required for all heritage assets regardless of whether they are recognised on the Balance Sheet or not. These requirements are a change in accounting policy; consequently there is a risk that the Council may omit material disclosures.

Finding

The Council reviewed the governance arrangements in accordance with the latest accounting guidance and no longer recognises Foundation Schools within its Balance Sheet. A value of £170 million has been removed from the Balance Sheet and previous year's financial statements adjusted as appropriate. Based on the audit work I have undertaken, I am satisfied that the Council has accounted for Foundation Schools correctly.

I evaluated management's arrangements to identify and account for heritage assets.

I checked that the adjustments to the opening balances were completed in line with accounting standards and adequately disclosed in the financial statements.

I am satisfied that appropriate disclosures for heritage assets to the value of £498k have been made.

Recommendations

R1 Maintain sufficient capacity in the central finance team to enable the efficient preparation of the financial statements, particularly in technical areas such as asset and PFI accounting.

R2 Review the asset register prior to the closure of the 2012/13 accounts to remove spurious assets with no evidence of existence or ownership.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as auditor is to consider whether the Council has adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

In its Annual Report to the Audit Committee in July 2012, Internal Audit reported a number of control weaknesses in the Council's material accounting systems, including accounts payable and general ledger. Weaknesses in the financial management and controls of a significant number of schools were also reported. Overall, the report noted an increase in the number of areas where control weaknesses were found. The Council is taking action to address the weaknesses, however, close monitoring is required to ensure that Internal Audit recommendations are implemented on a timely basis and control weaknesses addressed.

I have not identified any other significant internal control weaknesses that that I wish to bring to your attention.

Recommendation

R3 Maintain close monitoring arrangements to ensure Internal Audit recommendations are implemented on a timely basis and internal controls are strengthened.

Other matters

I am required to report significant findings from the audit and other matters that are relevant to your oversight of the Council's financial reporting process including the following:

- qualitative aspects of your accounting practices;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- other audit matters of governance interest.

Qualitative aspects of accounting practice

Accounting Policies

The Council's Accounting Policies (paragraph 3.1.2) refer to the approach to component accounting, the concept of which was introduced by the adoption of international accounting standards in 2010/11. This was a prospective change and the Council's disclosed approach is to consider component accounting when buildings are valued or revalued or enhancement expenditure of £250k is spent on them. The Council did not comply with its policy in 2011/12, and while I have established that the financial statements are not materially misrepresented as a result of this omission, the Council should ensure that it complies with its accounting policy in future years.

Related Parties Statement

The Council is required to disclose transactions with related parties in a note to the financial statements which is an important discipline to demonstrate the highest standards of governance and accountability. I performed a range of procedures to satisfy myself that related party disclosures are in line with the requirements of the Code. The Council's policies require all councillors and senior officers to complete an annual declaration of related party transactions. Declarations were not received from one councillor.

Anti-fraud and corruption arrangements

The Council maintains a strong anti-fraud culture through internal management arrangements and internal audit. The Council's anti-fraud policy is a comprehensive and informative document detailing the approach to various aspects of fraud and corruption, but it has not been updated since 2008. The Council's stance against the perpetration of fraud or corruption would be reinforced if this document was brought up to date, including the Council's response to new legislation (for example, the Bribery Act 2010) and would gain some profile through being re-issued to all Brent's staff and contractors.

Correspondence

During the course of the year I received correspondence from councillors and the local public regarding a variety of issues within the borough, including the following matters:

- the Library Transformation Project and its implications for certain libraries;
- planning matters; and
- the Brent Magazine.

I have investigated the issues brought to my attention from the perspective of my role as appointed auditor, which is principally concerned with allegations of fraud, illegality and implications for the Council's arrangements for achieving value for money. I have satisfied myself that the Council has appropriate governance arrangements in place and that these were observed in these areas and hence there is no cause for me to report further on the matters brought to my attention.

Recommendations

R4 Make arrangements to comply with the Council's policy on componentisation in future years.

R5 Continue to improve compliance with accounting disclosure requirements.

R6 Review and update the Council's Anti-Fraud and Corruption Policy.

Whole of Government Accounts

Alongside my work on the financial statements, I review the Council's Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. I am required to report my findings to the National Audit Office by 5 October 2012. My work is currently in progress.

Exercise of Public Rights and Certification of the Financial Statements

I have not received any questions or objections in relation to the 2011/12 accounts and hence, pending the satisfactory completion of my remaining audit tasks, including the whole of government accounts, I will be able to certify the audit of the Council's financial statements for the year ended 31 March 2012 as closed.

Value for money

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

I assess the Council's arrangements against the two criteria specified by the Commission, as set out in Table 2 below. In my 2011/12 Audit Plan, I reported three significant risks that are relevant to my conclusion. These relate to:

- the challenging savings targets which underpin the Council's short and medium-term financial plans;
- the low level of the Council's General Fund Reserve; and
- the capital programme.

I set out below my conclusion on the two criteria, including the findings from my work addressing the three risks I identified and other matters that have arisen from the work. I make recommendations as appropriate.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion within the Auditor's Report at Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Risks:</p> <p>Building an adequate level of reserves</p>	<p>I assessed the Council's systems and processes for securing financial resilience. My work has in particular considered the Council's arrangements for:</p> <ul style="list-style-type: none">■ budget-monitoring and securing the planned financial outturn for 2011/12; and■ budget-setting for 2012/13 and medium-term financial-planning. <p>The Council successfully managed the financial pressures in 2011/12 to deliver its services within the budget and contribute £2.5 million to its General Fund reserve. The Council's overall financial management arrangements were sound. There were no significant departmental overspends and a</p>

Criteria

Findings

substantial savings programme delivered in response to reduced funding from central government. Current progress against budget in 2012/13 indicates cost pressures of £2.2 million against a budget requirement of £263 million. The Director of Finance is confident that the overspends can be managed overall and is forecasting that the budget will be met.

For 2013/14 and beyond financial projections take into account the local impact of reforms to benefits funding and non-domestic rates. These developments set alongside forecasts of further population increases within Brent are expected to bring more financial pressure to the Council than has previously been experienced. The One Council Programme and other savings initiatives are crucial to the Council's plans to achieve financial balance, and Members should consider carefully the financial implications of any changes made during the 2013/14 budget preparation process.

Reserves

I reported last year that the Council's general fund reserve was the lowest in London based on CLG figures and the Council has recognised the need to address this in its budget strategy. The Council achieved its 2011/12 plan to increase general fund reserves by £2.5million to £10.2million. The medium term financial strategy shows the Council plans to further increase its reserves by £1m in both 2012/13 and 2013/14, and current projections provided by the Director of Finance indicate that the Council is on track to deliver these increments.

The Director of Finance's assessment of the adequacy of reserves is an important component of future financial decision-making, and the Council should be mindful of ensuring that reserves continue to be built to the levels recommended by that assessment.

Overall assessment

I am satisfied the Council has proper arrangements in place to secure financial resilience. Nevertheless, the Council needs to continue to respond to the increasing financial constraints and to deliver the planned savings that underpin its financial plans.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Risks:

Delivering a substantial savings programme

Delivering large capital projects

Other issues considered:

- procurement
- managing education demand
- risk management.

I have assessed the Council's arrangements for prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. My work has in particular considered the Council's arrangements for delivering its savings plans for 2011/12 and the medium term, as well as delivering its capital programme within budget.

Savings

The Council delivered its savings target of £41.7 million in 2011/12. The One Council Programme (OCP) contributed £29.9 million of these savings, and the Council has revised upwards the savings targets for the OCP to address the financial regime facing local government over the next few years.

The OCP has expanded to 37 projects and the 2012/13 programme is reported to be largely on track (total target for OCP is £34.7million as part of a total savings target of £53.3million). The OCP continues to be closely managed by management and Members.

Capital Projects

The Council has a significant capital programme with planned expenditure of £137m in 2011/12. Actual expenditure of £124.4 million was within budget. Large schemes such as the Civic Centre and South Kilburn are phased for delivery over a number of years.

Whilst expenditure on South Kilburn was within budget in 2011/12, the Civic Centre expenditure of £34 million required £5 million of expenditure budget to be rephased from 2012/13 to 2011/12, with officers reporting that the rephrasing was due to accelerated progress of scheme delivery. The Council should continue to monitor the delivery of its capital programme to ensure projects deliver value for money.

Procurement

Last year I reported the need to embed improvements in the Council's procurement arrangements and I noted that this area has remained one of the few red risks within the One Council Programme. The Council has made progress in 2011/12 to improve procurement, by building capacity within its central procurement team. This has given rise to a number of important initiatives which will take time to become embedded, for example the greater use of e-procurement arrangements, improved access to market information and improvements in controls to counter the risk of inefficient procurement. The Council will need to maintain a corporate focus to embed changes in its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.

Managing education demand

Brent faces a significant challenge in meeting its statutory duty to ensure all children are educated. The rapid rise in demand for school places in recent years has not been met with a commensurate expansion in provision, with the shortfall felt most critically at reception class age. The Council is particularly vulnerable to pressures brought on by a rapidly rising population and evidence suggests there are also substantial and unpredictable inflows of population bringing demand changes over relatively short periods.

The Council has revisited its strategy regularly in recent years to cope with the increasing demands and is taking actions to address the situation, both short and long-term, through the provision of a range of temporary and permanent expansions (or 'bulge' classes), identifying and seeking funding for future capital outlay, reviewing its asset disposal policy, lobbying government, and building internal capacity to manage the demand.

The key risks of funding and future population projections remain, but taking an overall view, the Council has made progress to cope with the problem of the demand for school places. However, it is clear from recent reports that finding long term solutions will require the Council to consider all options for attracting funding and building educational capacity within the borough.

Risk management

During 2012 the Council overhauled its risk management arrangements and revised and updated risk registers. Corporate and departmental risks were presented to the June Audit Committee. The next stage in implementing the new arrangements is to embed risk assessment within routine management across the Council.

Overall assessment

Overall, I am satisfied that Brent has maintained proper arrangements for challenging how it secures economy, efficiency and effectiveness during 2011/12. The importance of the savings programme is paramount in delivering financial plans and the Council is taking steps to manage the increases in demand-led services emerging from population rises. Progress is being made on procurement and risk management, important corporate elements to securing value for money, and areas where recent advances should be embedded quickly in 2012/13.

Recommendations

- R7** Continue to manage the financial position closely and build the level of the General Fund reserve.
 - R8** Maintain a corporate focus to embed enhancements to its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.
 - R9** Continue to explore all options to meet the rising demand for school places in the borough.
-

Fees

I reported my planned audit fee in the 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12	Expected fee 2011/12
Audit*	£439,200	£439,200
Claims and returns**	£85,000	£85,000
Non-audit work	£0	£0
Total	£524,200	£524,200

* The fee above is the scale fee and excludes a rebate of £35,136 (8%) which the Audit Commission returned to audited bodies to reflect its own internal efficiency savings.

** Claims certification work is in progress. Pending its completion, I have continued to report the expected fee in line with the planned fee.

Appendix 1 – Draft independent auditor’s report

Opinion on the Authority financial statements

I have audited the financial statements of London Borough of Brent for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Director of Finance and Responsible Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Responsible Financial Officer; and the overall presentation of the financial

statements. In addition, I read all the financial and non-financial 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 financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Brent as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Director of Finance and Responsible Financial Officer is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Finance and Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; 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 and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Council and auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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 Council 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 2011, 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 ended 31 March 2012.

Certificate

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Andrea White
District Auditor

1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

28 September 2012

Appendix 2 – Corrected errors

Officers amended the draft financial statements to correct for errors other than those matters considered trivial. The table below sets out the amendments of a material and non-trivial nature which affect the CIES and / or the Balance Sheet. The more significant errors in other accounts and disclosure notes are set out below the table. Less significant errors and amendments will be reported to officers in a separate report on completion of the financial accounts audit.

		Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Misclassification of income and expenditure in the Comprehensive Income and Expenditure Statement					
Net cost of services: central services to the public	£84,331k of income and expenditure was erroneously coded to central services to the public rather than other housing services. This was due to mistakes made in mapping the general ledger to the accounts structure.	84,331	84,331		
Net cost of services: other housing services	No impact on the Council's financial position.	84,331	84,331		
Misclassification of losses and gains on disposal in the Comprehensive Income and Expenditure Statement					
Net loss on disposal of non-current assets attributed to cost of services (across a variety of service categories)	Gains and Losses on disposal of non-current assets incorrectly included in Net Cost of Services analysis of CIES. Error corrected by moving entries to 'Other Operating Expenditure' (see also Note 9) in CIES.		9,749		
Net loss on disposal of non-current assets attributed to 'Other Operating Expenditure'	No impact on the Council's financial position.	9,749			

		Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s

Inconsistencies between the Comprehensive Income and Expenditure Statement and the Housing Revenue Account (HRA)

HRA income	Corresponding entries within Income and Expenditure between the CIES and the HRA were found to be inconsistent necessitating non-trivial amendments to the HRA in order that the two accounts reconcile correctly.		6,184*		
HRA expenditure		520*			
HRA share of operating I&E in CIES		4,918*			
Movement in the HRA statement (MiHRAS)		* Impact is on HRA only, not the CIES. No impact on the HRA's financial position.	746*		

Errors in Private Finance Initiative (PFI) models

CIES: Other Housing Services	The Council misclassified the different elements of the payment made during the year to its Social Housing PFI operator.	1,404			
Financing and Investment Expenditure			486		
Long term creditors	No impact on the Council's financial position.				2,735
Short term creditors				2,103	
Other long term liabilities: deferred income					
Movement in Reserves Statement: General Fund					918
Movement in Reserves Statement: Capital Adjustment Account				918	

		Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Adjustments relating to foundation school assets					
Loss on disposal of fixed assets	The Council omitted five assets from their review when writing out foundation school assets from the Balance Sheet.	369			
Property, plant and equipment					369
Movement in Reserves Statement: General Fund	No impact on the Council's financial position.		369		
Movement in Reserves Statement: Capital Adjustment Account				369	
Revaluation of investment properties					
CIES: Other Housing Services	The Council accounted for revaluation losses on investment properties (note 14), but did not disclose movements correctly in note 10 (Financing and Investment Expenditure). No impact on the Council's financial position.		240		
Note 10: Financing and Investment Expenditure		240			
PFI: deferred income					
CIES: Other Housing Services	Amortisation of deferred income from the Stonebridge PFI model was not accounted for. No impact on the Council's financial position.		205		
Other long term liabilities: deferred income					205
Movement in Reserves Statement: General Fund		205			
Movement in Reserves Statement: Capital Adjustment Account					205

		Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Capitalisation of Civic Centre expenditure					
Assets under construction	The Council did not capitalise all contract retentions relating to the Civic Centre project. No impact on the Council's financial position.			197	
Short term creditors					197
Misclassification of intangible assets					
Intangible assets	Misclassification of two items of property, plant and equipment as intangible assets. No impact on the Council's financial position.				190
Property, plant and equipment				190	
Error in writing out capital grant receipt in advance					
Short term creditors	Council recorded a capital grant receipt in advance in the 2010/11 financial statements. The grant was applied to fund the Council's capital programme during 2011/12, but was not written out of creditor balances. This is favourable to the Council's financial position, adding to the General Fund Balance.			152	
Net Cost of Services: Education and Children's Services			152		

List of the more significant amendments to other accounts and disclosure notes

A number of amendments were made to other accounts and disclosure notes within the statement of accounts as a result of the audit. The more significant ones are set out below:

- total future payments to be made under PFI schemes were understated in note 43 by £34,458k, due to the incorrect model being used in calculations, and the impact of amendments to the Housing PFI model;
- corrections to Note 39 to add Section 106 contributions (£5,385k) and grants relating to foundation schools (£12,447k) and to remove four non-ringing fenced grants (£25,568k) that were included in Note 11;
- amounts in the Council's financial instruments note 16 for current investments and current debtors were inconsistent with disclosures elsewhere in the statements;
- amendments within Note 23 were made to disclose more clearly amounts used in year (£2,324k) and additional provisions made (£3,089k) with respect to Compensation Claims; the overall movement in Provisions and year end balance remains unchanged;
- Note 12 (movements in balances: 2011/12 property, plant and equipment for council dwellings) has been revised to account for amendments in respect of accumulated depreciation (£36,946k);
- in-year movements in balances for non-operational HRA assets (including revaluations of £3,478k) were not reported in note 3a to the HRA;
- note 8a to the HRA on funding of HRA capital expenditure was revised due to errors in preparation. The largest error in the note was £312k on funding by external grants;
- note 8b to the HRA on HRA capital receipts was revised due to errors in preparation. Receipts revised downwards by £1,875k;
- exit package disclosure in note 36 did not include staff for housing. Amounts disclosed were amended from £3,738k to £4,366k;
- in note 22 (creditors), balances relating to local authorities were understated by £1,378k, and balances relating to other entities overstated by the same amount;
- a number of amendments have been made to note 29 (reconciliation to subjective analysis – 2010/11 comparative figures) as this note was inconsistent with the 2010/11 analysis between directorates, which was presented correctly; and
- the year end balance on PFI assets disclosed in note 12 was overstated by £190k. This error relates only to disclosure, and is carried forward from the prior year.

None of these issues had an impact on the Council's financial position.

Appendix 3 – Draft letter of management representation

London Borough of Brent - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, 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 2012 and the associated financial statements of its pension fund.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the accounting estimates included within the financial statements, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimates are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of the London Borough of Brent

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed.....

Name:

Position: Chief Executive

Signed.....

Name: Clive Heaphy

Position: Section 151 Officer

Signed.....

Name: Stephen Wood

Position: Chair of the Audit Committee

Date:.....

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues the opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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. In the case of Brent we applied a materiality of £9.118 million.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the Members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 – Action plan

Note: Officers are preparing a complete Action Plan to be tabled at the Audit Committee on 27 September

Recommendations

Recommendation 1

Maintain sufficient capacity in the central finance team to enable the efficient preparation of the financial statements, particularly in technical areas such as asset and PFI accounting.

Responsibility

Priority

High

Date

Comments

Recommendation 2

Review the asset register prior to the closure of the 2012/13 accounts to remove spurious assets with no evidence of existence or ownership.

Responsibility

Priority

Medium

Date

Comments

Recommendation 3

Maintain close monitoring arrangements to ensure Internal Audit recommendations are implemented on a timely basis and internal controls are strengthened.

Responsibility

Priority

Medium

Date

Comments

Recommendation 4

Make arrangements to comply with the Council's policy on componentisation in future years.

Responsibility

Priority

Medium

Date

Comments

Recommendation 5

Continue to improve compliance with accounting disclosure requirements.

Responsibility

Priority

Medium

Date

Comments

Recommendation 6

Review and update the Council's Anti-Fraud and Corruption Policy.

Responsibility

Priority

Medium

Date

Comments

Recommendation 7

Continue to manage the financial position closely and build the level of the General Fund reserve.

Responsibility

Priority

High

Date

Comments

Recommendation 8

Maintain a corporate focus to embed enhancements to its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.

Responsibility

Priority

High

Date

Comments

Recommendation 9

Continue to explore all options to meet the rising demand for school places in the borough.

Responsibility

Priority

High

Date

Comments

Recommendation 10

Continue to embed the risk management arrangements, including undertaking regular reviews of departmental risk registers and relating mitigating actions to operational and financial plans.

Responsibility

Priority

High

Date

Comments

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to Members and officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any Member or officer in their individual capacity; or
- any third party.

