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London Borough of Brent

Audit plan

For the year ending 31 March 2005



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In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this statement. The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

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Members of the Performance & Finance Select Committee
Brent Council
Town Hall
Forty Lane
Wembley
Middlesex
HA9 9HD

April 2004

Dear Members of the Performance & Finance Select Committee,

We are delighted to present to you our Audit Plan for 2004/05, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting London Borough of Brent.

If you have any questions regarding this Audit Plan please contact Mike Robinson at 020 7804 3687.

Yours faithfully,

PricewaterhouseCoopers LLP

Introduction

- Our Audit Plan ('our Plan') has been prepared to inform the officers and members of the London Borough of Brent (the 'Council') about our responsibilities as your external auditors and how we plan to discharge them. Every local authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Council.
- Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ('the Code').
- Our Plan has been developed to consider the impact of recent developments, based upon discussion with management and our understanding of the Council and of local government in general. Our Plan has also been developed in conjunction with the Council's Improvement Plan and where issues raised within the Improvement Plan impact upon our Code objectives, these are detailed within this Plan. We will liaise with inspectors who are responding to other issues raised within the Improvement Plan. This Plan has been discussed and agreed with the Council's Relationship Manager. The key audit activities detailed in this Plan have been incorporated within the Council's Joint Audit and Inspection Plan.

Corporate Risks

- Improvement planning following CPA
- Medium term financial strategy
- Local Public Services Agreement
- Internal Audit
- Risk Management
- Statement of Internal Control
- Prudential framework for capital expenditure
- Charging for discretionary services
- Trading
- Business Improvement Districts
- PFI
- Partnerships
- e government
- European Monetary Union
- Early closing and Whole of Government Accounts
- Reserves

The Code of Audit Practice

- Opinion



- Use of resources
- Performance information

- The legality of financial transactions
- Financial standing
- Systems of internal financial control
- Standards of financial conduct and the prevention and detection of fraud and corruption

Accounts:

It is the responsibility of the Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

Governance:

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- a) the legality of transactions that might have significant financial consequences;
- b) the financial standing of the audited body;
- c) systems of internal financial control; and
- d) standards of financial conduct, and the prevention and detection of fraud and corruption.

Performance:

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to review and report on:

- a) the arrangements that the Council has put in place to prepare and publish specified performance information; and
- b) the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

The key business and audit risks

- To determine the nature and extent of the core audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one or more of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.
- It is the responsibility of the Council to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to the circumstances of the Council. It is not designed to identify all risks affecting the operations of the Council or all internal control weaknesses.
- The following tables summarise the results of our risk assessment in terms of the significant financial and operational risks facing the Council and our planned response.

The key business and audit risks

Business risks	Audit approach	Code objective
Improvement Planning following CPA		
<p>Authorities have been required to respond to the overall CPA assessment by developing an improvement plan to address identified weaknesses and secure improvements in services to users and the community.</p> <p>This improvement plan and subsequent developments in relation to it will inform our risk-based audit plan.</p>	<p>We will consider the contents of the Plan in our work on governance and the use of resources.</p> <p>We will analyse the contents of the Plan to identify any risks factors relevant to our audit of the financial statements.</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
From 'Fair' to 'Excellent'		
<p>The Authority must ensure that its performance management arrangements continue to evolve. Sufficient resources need to be targeted towards improving performance in the areas of revenues and benefits, waste and recycling and sport.</p> <p>Officer/member panels have been set up to focus on services with performance issues and a Brent performance fund has been established to fund creative projects designed to improve performance. The Council's Performance & Finance Select Committee also plays an increasingly important role in addressing aspects of weak performance.</p>	<p>We have discussed the 2004 Improving Brent initiative with officers and have taken steps to ensure that our 2004/05 studies programme addresses areas that the Council has identified as priorities for action</p> <p>We will monitor the success of these initiatives throughout the period.</p>	<p>Performance</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Medium Term Financial Strategy		
<p>Members began planning for the 2004/05 budget at the July 2003 Awaydays. Since then, the various growth bids have been prioritised and in some cases, refined in order to contain the proposed Council Tax increase within the parameter agreed by the Cabinet. Members have to consider the extent to which they can fund front line services, whilst delivering what has been termed a 'Budget for the Environment'. At the same time, there is a need to grow some of the corporate services in order to maximise the likelihood of improving the performance management culture, as required by CPA.</p> <p>Key decisions have to be taken against a background of limited financial reserves being available. However, the Council has shown in recent times that its risk-based strategy to manage and replenish its revenue reserves has prevented further deterioration of working balances.</p>	<p>As part of our Code objective to monitor the Council's financial standing, we will review the Council's Medium Term Financial Strategy and assess the extent to which the linkages between priorities and resources have been demonstrated.</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Local Public Service Agreements		
<p><i>Local Public Service Agreements</i></p> <p>PSA1 has now been completed and the Authority is in the process of negotiating PSA2. There are a number of risks associated with this including</p> <ul style="list-style-type: none"> - Carefully negotiating targets (learning the lessons of PSA1), ensuring that the Authority has the ability to support the initiative in terms of management capacity, skills, infrastructure and especially its performance management arrangements. - The appropriate method of distribution PSA1 moneys 	<p>We will monitor the effectiveness of these arrangements and the development of PSA2 targets through discussion with senior officers, the Authority's PSA Officer and review of the final PSA2 agreement.</p> <p>We await guidance from the Audit Commission on our role auditing declared PSA performance measures, following the end of the pilot.</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Internal Audit		
<p>Internal Audit has been under resourced for a number of years as a result of local recruitment difficulties. This, together with our requirement for internal audit to provide us with a high level of support in the final accounts audit means that there is a risk that internal audit will not be able to complete its annual plan.</p>	<p>We remain in communication with Internal Audit and the Director of Finance in order to understand their staffing situation and progress with their plan.</p> <p>We are considering whether we can reduce the level of support provided by internal audit in the final accounts process. However, until the Council has progressed with the modernisation of its accounting systems, there is little scope for modifying our approach.</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Risk Management		
<p>During 2002/03 the Authority has developed a new approach to risk management. This was achieved by focusing on the risks facing the organisation both corporately and within Directorates and taking initial steps towards embedding risk management as a key management tool in medium and long term planning. The next stage is crucial for the Authority and is to map the controls in place against these risks in order to focus on areas for improvement.</p>	<p>We will discuss the progress of the Authority's risk management agenda and work closely with senior officers and the performance management team to review the mapping of internal controls to risks.</p> <p>In addition we will review the outcomes of this process in our review of the Authority's Statement on Internal Control, as detailed below.</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Statement of Internal Control		
<p>From 2002/03, authorities have been required by the SORP to prepare a Statement on the System of Internal Financial Control for inclusion in the statement of accounts. For 2003/04, the Accounts and Audit Regulations require this Statement to be extended to cover all internal controls, not just financial aspects, and for an effectiveness review to have been carried out to inform the Statement.</p> <p>CIPFA is developing guidance on the wider Statement and the implications of effectiveness reviews that will be available later in the year.</p>	<p>We will review the arrangements in place to enable the Council to produce and sign this statement and will work in conjunction with Internal Audit to provide guidance on the progress of the Council in complying with the Statement of Internal Control.</p>	<p>Governance</p>

The key business and audit risks

Business risks	Audit approach	Code objective
E-Government		
<p>A cornerstone of the Government's e-government policy is the commitment that 100% of dealings capable of electronic service delivery should be provided electronically by 2005. Progress towards the 2005 target is reported annually through the best value performance framework (BVPI 157), and will require a step change in the rate at which services and transactions are offered in electronic forms including transactions between Authorities and citizens, and between Authorities and businesses. There is therefore a risk that the Authority may not meet this target.</p>	<p>As in previous years, we will utilise our IT specialists to review the Authority's progress in meeting this target. This review will include an assessment of</p> <ul style="list-style-type: none"> •The Authority's strategy; •funding and resources; and •management and technical capacity. 	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
European Monetary Union		
<p>If, and when, the five economic tests that the Government has set out as prerequisites for joining the single currency are met and the decision is made to join, the timetable for introduction will be relatively short. Authorities should have contingency plans for preparations for the introduction of the Euro. Failure to prepare could mean that the body will not be ready for the change in currency and may seriously jeopardise its ability to trade in the new currency and thus its ability to deliver services.</p>	<p>We will consider the appropriateness of the Council's plans in preparation for the possible introduction of the Euro.</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Planning for implementation of Prudential Framework for Capital Expenditure		
<p>The new Prudential Framework will be introduced from 1 April 2004. This will replace most of the statutorily defined controls over capital expenditure with limits and indicators based on balances recorded in the Authority's Consolidated Balance Sheet and projections of the consequences of capital investment on revenue accounts for future years.</p> <p>Substantial work will be required to meet the demands of the Framework by designing and implementing new financial planning processes to develop affordable capital programmes, secure approval for them, and monitor and report on progress.</p> <p>As the starting point for many of the limits and indicators that will be required for the Framework will be entries in the Authority's accounts (e.g. the capital financing requirement) or will depend on the Authority's accounting policies (e.g. the treatment of credit arrangements), it will be crucial to ensure that the policies and accounting treatments carried forward into the new Framework are robust and fit for their new purpose.</p>	<p>The Director of Finance has assessed the impact of the Prudential Code on the Council's business and various scenarios were presented to members at the October Awaydays. The challenge now is to ensure that the affordability methodology is factored in to service and resource planning for revenue and capital expenditure.</p> <p>We will continue to keep the Council's preparedness for the Prudential Framework under review.</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Charging for Discretionary Services		
<p>The Local Government Act 2003 introduced new powers to charge for services that the Authority was not required to provide and for which charging was not prohibited. Use of these powers will require effective accounting arrangements to ensure that users are not overcharged. The Authority will also need to have recognised the effects that charging could have on patterns of demand for a service and have in place arrangements for recovering unpaid charges.</p> <p>The Council is considering the implications of the Local Government Act 2003 in respect of new powers to charge for services</p>	<p>A Council wide Best Value review of charging and fees is underway. We will review the final report and action plan arising from this review and may undertake targeted work in particular service areas where opportunities for improvement have been identified</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Early Closing and Whole of Government Accounts		
<p>HM Treasury has confirmed an intention that local authorities will participate in a dry run for WGA in relation to 2004/05. The dry run will concentrate on establishing systems and relationships on which to build for full audited WGA in 2006/07. Together with a requirement for the approval and publication of the accounts to be brought forward by another month in 2004/05, new and/or stronger pressures will be applied to the authority's framework for preparing the statement of accounts.</p>	<p>We are working in conjunction with the Council to identify the barriers to early accounts closure, and to implement procedures and working practices to ensure that the deadlines will be met in 2004-05 and beyond.</p> <p>We will continue to work with the Council to ensure that the barriers to early accounts closure are identified, and actions taken to address them.</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Reserves		
<p>The Local Government Act 2003 requires for the first time in 2004/05 that authorities carry out reviews of their budget requirement from time to time during the financial year and take action where there has been a deterioration. There is a risk that such reviews might not be carried out as regularly as they should and the opportunity to take appropriate action missed.</p>	<p>We will monitor decisions taken in budget setting and in-year monitoring in relation to levels of reserves.</p> <p>The success of the Council's risk-based strategy for replenishing reserves will be assessed as part of the Auditor Scored Judgments exercise</p>	<p>Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Business Improvement Districts		
<p>The Local Government Act 2003 has given authorities the power to establish Bids to provide additional or improved services to a local area, funded from a levy on business. Where an authority is considering setting up a BID, it will need to have assurance that demand for the proposed services is sufficient for a ballot to be successful and that arrangements can be put in place to ensure that the BID is run efficiently and effectively.</p>	<p>We will keep up to date with developments should the Council decide to establish any Business Improvement Districts throughout 2004/05.</p>	<p>Governance / Use of Resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
PFI		
<p>The Council currently has several PFI schemes at various stages. Those upon which we have commented since 2002/03 are as follows:</p> <ul style="list-style-type: none"> •JFS Re-financing project •Non-HRA Housing accommodation for people with learning disabilities •Willesden Sports Centre <p>The Council must ensure that the risks associated with such projects are thoroughly reviewed and managed in order to lessen their impact on its investment strategy and reputation.</p>	<p>We will review any PFI schemes being pursued by the Council both to ensure the accounting treatment and governance arrangements are appropriate.</p> <p>In particular, we will monitor developments on the Willesden Sports Centre scheme to ensure that the dispute between the bank and the consortium is resolved and that FRS 5 compliance is achievable</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Partnerships		
<p>Partnership working is now a central part of service delivery for local authorities, and it is essential that the Council is aware of the risks and the opportunities that partnership working offers. The Council has made significant progress in developing partnerships – most notably the Mental Health Partnership and Learning Disabilities Partnership with the local Primary Care Trust. There are a number of risks the Council should appreciate and address in developing these links, such as:</p> <ul style="list-style-type: none"> • is the purpose of the partnership clear; • is the organisation committed to the partnership and the achievement of its objectives; • are there adequate arrangements to monitor the outcomes of the partnership; • are funding arrangements, such as pooled budgets, clear; and • are there adequate arrangements to manage the relationships in the partnership. 	<p>We will discuss the partnership arrangements being developed by the Council and work closely with officers to ensure these risks are adequately addressed.</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Systems Issues		
<p>The Council's systems are now run from just three platforms (Unity, Oracle and Epicor) and the next phase of the new implementation plan is for inputs to become increasingly more automated, such as disc input for payroll data and direct interfaces between the three platforms.</p> <p>IT Services assists the services in implementing the new proposals, but is sometimes defeated by problems associated with the three different platforms and insufficient resources.</p> <p>Consultants have been engaged in order to provide initial scoping and recommendations for a 2004/05 project to improve systems capabilities and reporting. The initial report is due in late February 2004.</p>	<p>We have agreed with the Deputy Director of Finance that we are unlikely to be able to place reliance on the Council's overall control environment for the 2003/04 financial statements audit and will therefore have to adopt a largely substantive approach as in previous years.</p> <p>However, with a view to working towards placing a greater degree of reliance on systems in future, we will introduce our GRMS staff as soon as possible to comment on and consultant's proposals and to agree how we can assist the Council in its systems development</p>	<p>Financial statements / Governance / Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Management Information		
<p>Members and chief officers recognise the need to develop the Council's management information in order to assist them in making key decision on services and improve the likelihood of an improved CPA rating. Several initiatives were taken in this respect in 2003/04:</p> <ul style="list-style-type: none"> • Agreement of 25 Vital Signs Performance Indicators • Establishment of member-led task groups focusing on areas where performance is judged to be weaker • The Leader's Performance Board, through which Cabinet members and lead officers are questioned about aspects of their services • Creation of a Performance Fund, which is to finance initiatives to improve performance in key services – the objective being to improve their inspection scores 	<p>We met the Director of Policy & Regeneration early in the cycle, discussing the implications of the Improving Brent document.</p> <p>We considered how our input could best assist the Council in its transition from Fair to Excellent and sought to select a studies programme in accordance with the Council's priorities.</p>	<p>Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Corporate Services		
Procurement		
<p>The Council appointed a procurement officer in June 2003. Her first tasks have been to focus on utility tariffs and to review the ease with which management information on procurement can be captured in Brent. The level of reliable management information on procurement is affected by the existence of three IT platforms and general ledgers; each organising and reporting data differently</p>	<p>We will continue to monitor the arrangements that the Council puts in place to strengthen its procurement capabilities and may undertake targeted work to support the Council in the development of its procurement strategy.</p>	<p>Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Social Services		
Budget		
<p>From September 2002, it became clear that Social Services was going to significantly overspend in the financial year 2002/03. The final outturn was £6.3 over budget. The 2003/04 base budget for Social Services was increased by £10million and together with the strengthening of accounting support arrangements and improvements to systems, the 2003/04 outturn expenditure is anticipated to be within budget. A key challenge for the Council moving forwards will be ensuring that the knowledge and experience of temporary staff is not lost as new permanent accounting staff take on their roles.</p> <p>Social Services is judged to have promising prospects for improvement. The Council hopes that it could be on track to achieve 2 stars by December 2004.</p>	<p>We will monitor the Council's actions to address these risks. The setting up of an officer/member panel to review financial performance in 2003 was a useful discipline and this, together with base budget growth and strengthening of the services' management accounting functions have improved the level of financial control and ability to forecast.</p> <p>Consequently, Social Services is predicted to break even at 31 March 2004. Unless there are any significant overspends or clinical issues brought to our attention, we expect to focus less on Social Services issues than was the case in 2002/03. This mirrors the approach adopted by SSI.</p>	<p>Governance</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Social Services		
Special Educational Needs (SEN)		
<p>The Council is projected to overspend against its SEN 2003/04 budget by £1.6million. This is proving difficult to manage, yet fundamental changes in service provision are required. There is to be an assessment of cases that Education currently has on the books, together with a review of special school provision.</p> <p>The majority of the costs arrive from a high incidence of out-borough SEN placements. In addition, there has been an increase in the number of pupils with statements moving into Brent, increases in fees charged by independent special schools and overspends in the home tuition service.</p>	<p>We will monitor the Council's arrangements to improve its performance in this area. The Council is following up its Best Value Review of home to school transport and work is being undertaken to assess the extent to which forecasts could have been improved to reflect the numbers of pupils coming through the system.</p> <p>One of our staff is undertaking her CIPFA P3 project in this area and we may have to undertake targeted work if costs continue to escalate.</p>	<p>Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Social Services / Education		
Green Paper on Children's Services		
<p>The green paper issued in March 2004 will lead to significant restructuring for most local authorities.</p> <p>Different options for possible outcomes have been generated, including the introduction of a Director of Children's Services by 2006. Brent will seek to minimise disruption in restructuring to minimise the impact on its drive to become a CPA "good" authority.</p> <p>However, the green paper could lead to significant changes within the Council and therefore potential risk.</p>	<p>We will review the Council's progress and restructuring plans</p>	<p>Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Education		
School Budgets		
<p>A means-led review of primary schools budgets is planned for the next 4-5 years.</p> <p>Schools are currently receiving Outer London funding. The schools believe they are underfunded as many in the south of the borough fall within Central London and hence are affected by inner city issues.</p>	<p>We will monitor the progress the authority makes in reaching a more preferable settlement for its primary schools.</p>	<p>Use of resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Housing		
Arms Length Management Organisation		
<p>2002/03 was the first year of the ALMO – which is part of the national second wave of ALMOs. This is audited by a separate PwC team.</p> <p>The Commission’s Housing Inspectorate scored the ALMO at three stars with excellent prospects. This was viewed as an excellent performance and given the ALMO’s efficiency, no immediate audit risks have been identified.</p> <p>The Council has retained ownership of the HRA and title to the assets. Both the ALMO’s and the Council’s housing staff are experienced with good local knowledge and working arrangements were effective, resulting in no significant final accounts issues.</p>	<p>We do not anticipate undertaking significant housing work in 2003/04 outside of the normal financial accounts process.</p> <p>We will maintain a watching brief over the various long term targeted housing initiatives, namely:</p> <ul style="list-style-type: none"> ➤ Stonebridge HAT ➤ South Kilburn Developments ➤ Funding of Supported Housing 	<p>Financial statements / Governance</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Environmental Services		
Waste & Recycling		
<p>The Council's waste and recycling performance is poor and this is a service that has to improve in order to enable a move from a fair to good CPA rating. The Council does not have its own civic amenity site and currently relies on relatively expensive contracts with West London Waste Authority. It is hoped that the Council's own CA site will become operational in 2004 and that this will provide a better opportunity to meet targets.</p> <p>The Council has also run into performance difficulties with its refuse collection contract. This is an area that is reported regularly to the Performance & Finance Select Committee and discussion are in place with the contractor to seek to raise the standard of service</p>	<p>Although we do not expect to undertake a full study, we expect to monitor developments in these areas throughout 2003/04</p>	<p>Governance/ Use of Resources</p>

The key business and audit risks

Business risks	Audit approach	Code objective
Environmental Services		
Overspend		
<p>There is projected to be a small overspend of £0.128million at 31 March 2004. This is attributable to the costs of the Quanton Street trial (a section 106 agreement) and poor performance in the parking control account collection rates.</p> <p>Waste disposal costs are proving difficult to predict. Officers have been tasked with demonstrating the impact that the new Civic Amenity site will have on the costs of waste disposal and recycling.</p>	<p>We will continue to liaise with officers to review this area.</p>	<p>Financial Statements</p>

Communication of audit matters to those charged with governance

Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications to them. We have assumed that 'those charged with governance' are the Performance & Finance Select Committee.

We intend to continue to communicate with the Performance & Finance Select Committee in the following way:

- We will communicate to you in any relationships that may bear as our independence and objectivity of the audit engagement partner and audit staff, and how we will deal with these issues;
- We will communicate key matters in relation to the planning of our audit, and
- We will communicate the key findings from the audit.

We reserve the right to communicate directly with the Council on any audit matters that we consider to be of sufficient importance.

Communication of audit matters to those charged with governance

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to the Council and of those responsible in the UK Firm for compliance matters. We are aware of the following relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit engagement leader and staff :

Services provided to the Council

In addition to our audit under the Code, the Firm has also undertaken other work for the Council.

The Firm has also recently been engaged by the Council to provide a Payables Review and Recovery Service (Cashfinder). This project involves the review of the Council's payments systems to identify inter alia duplicate payments, outstanding credits due to the Council and discounts not claimed.

In agreeing to accept this engagement, which when averaged across the years to which the services relate is below the de minimis threshold set by the Audit Commission, we reviewed whether it would constitute a conflict with our audit responsibilities and concluded that it would not.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for an audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Communication of audit matters to those charged with governance

Conclusion

We confirm that in our professional judgment, as at the date of this Plan, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Planning of our audit

This Plan details those areas which we consider to be high risk and includes our response to those risks. It also explains where we are intending to rely upon internal controls and the work of internal audit, if applicable.

Our financial statements audit is carried out in accordance with our Accounts Code objective, which requires us to comply with auditing standards. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The assessment of what is material is a matter of professional judgment and includes consideration of both the amount and nature of investments.

Communication of audit matters to those charged with governance

Findings from the audit

We will communicate to the Performance & Finance Select Committee, the following issues arising from our audit:

- Expected moderations to the audit report;
- Unadjusted misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;
- Material weaknesses in the accounting and internal control systems identified as part of the audit;
- Our views about the qualitative aspects of the Council's accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

Communications plan

The table below maps the dialogue that takes place between us as auditors, and those charged with governance (the Corporate Monitoring Group), throughout the year.

Italics indicate that the deliverable may be dialogue only

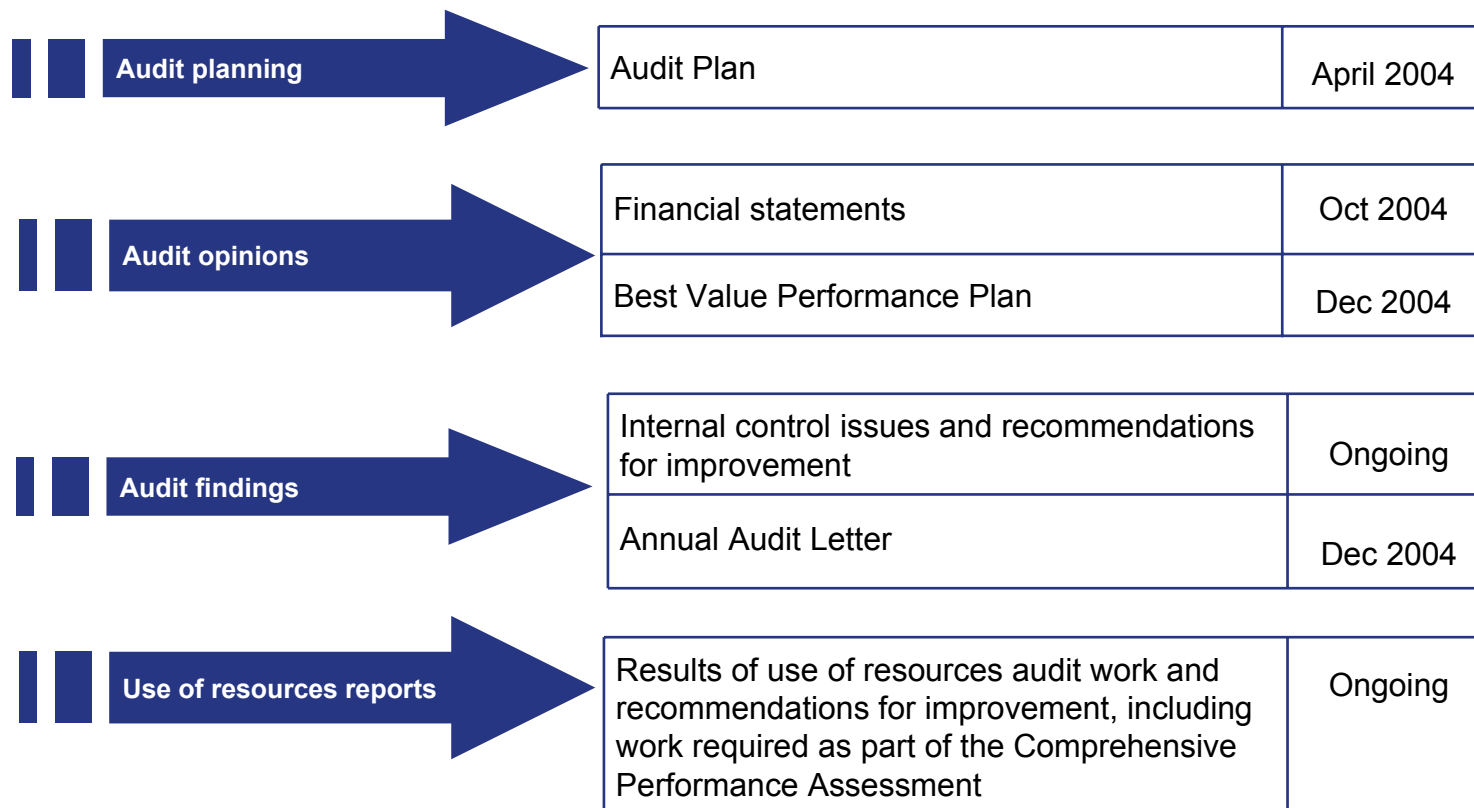
	Planning meeting	Ongoing progress meetings	Completion meeting
Service Approach	<ul style="list-style-type: none"> • Communications plan • Our audit plan: <ul style="list-style-type: none"> – Reporting timetable – Specific objectives – Audit scope/approach (by department) – Engagement team – Other deliverables 	<i>Update on anything that has changed since start of audit</i>	<ul style="list-style-type: none"> • Annual Audit Letter: • Internal control and business issues report
Risk and Control	<ul style="list-style-type: none"> – Audit issues (e.g. materiality) – Risk analysis <i>incl perspectives on fraud risk and other code objectives</i> 	<i>Results of work completed to date</i>	<ul style="list-style-type: none"> – Internal control and business issues report
Financial Reporting	<ul style="list-style-type: none"> – Accounting and reporting issues <p><i>Transparency of corporate reporting - plans to provide supplementary material about performance and governance with the statement of accounts.</i></p>		<ul style="list-style-type: none"> – Accounting policies – Management judgments – Transparency
Governance	<ul style="list-style-type: none"> – Required performance work – Targeted work on other Code objectives <p><i>Corporate governance roles and practices:</i></p> <ul style="list-style-type: none"> • <i>Clarity on different roles to extent not previously discussed</i> • <i>Assistance to Corporate Monitoring Group with their self evaluation</i> 		<ul style="list-style-type: none"> • <i>Best practices in corporate reporting to extent audit committee wishes to discuss</i> <ul style="list-style-type: none"> – Opinion on financial statements – Independence confirmation • <i>Assessing our performance and yours</i>

Ongoing assessment of needs & expectations



Communication timetable

Our team works on the engagement throughout the year to provide London Borough of Brent with a timely and responsive service. Below are the dates when we expect to provide you with the outputs of our audit.



Needs and expectations

To provide an effective and efficient audit, we wish to discuss and agree with you our mutual needs and expectations. A summary of our understanding of what has been agreed is set out in the table below:

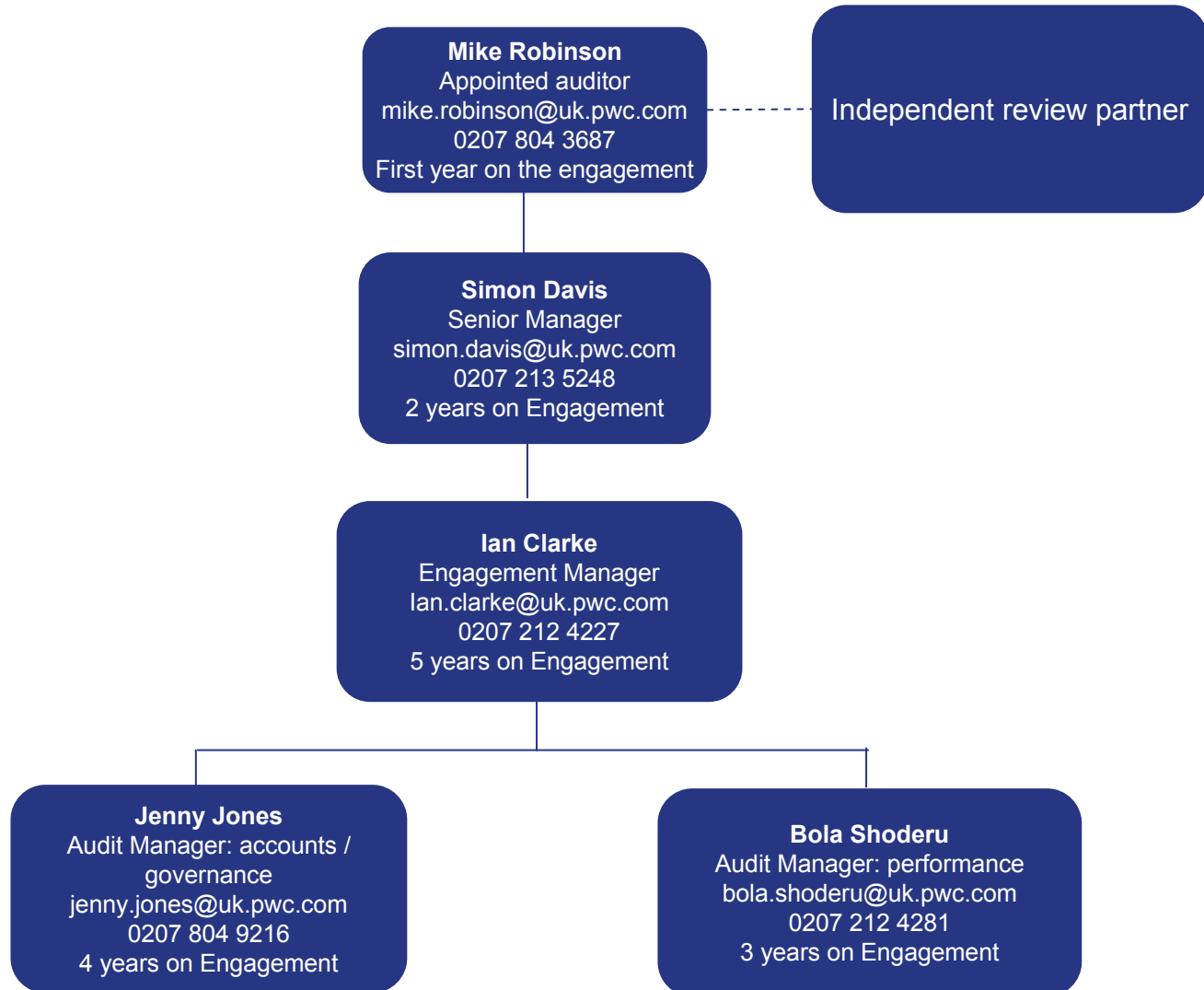
Needs and expectations	Response
London Borough of Brent:	
A high quality service Well abreast of national developments	Continuity of team members and the support of specialists from our national PS technical team and other relevant groups, eg IT and Pensions
A quick response A tailored approach	We are committed to make the new liaison arrangements, agreed for this year, work effectively and to respond quickly via telephone and email. Our tailored approach means that we rely on those controls you operate in practice and tailor our procedures to your particular circumstances, structures and methods.
PricewaterhouseCoopers:	
Deliverables available as agreed	
Access to relevant members and staff	
Co-operation with local targeted work	

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PricewaterhouseCoopers: Deliverables available as agreed	
Access to relevant members and staff	
Co-operation with local targeted work	

Engagement team



Engagement team roles

Audit Team	Responsibilities
Appointed auditor	Statutory auditor responsible for independently delivering the audit in accordance with the Code of Audit Practice, including agreeing the Audit Plan, quality of outputs, presenting the Annual Audit Letter and signing opinions. Also responsible for liaison with the Chief Executive and Members.
Engagement manager	Manager on the assignment responsible for overall control and liaison of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan and Annual Audit Letter.
Audit manager: accounts / governance	Responsible for managing our accounts work, including the audit of the statement of accounts, the review of the financial systems and work in relation to fraud and corruption.
Audit manager: performance	Manager on the assignment responsible for coordinating the performance audit programme and work on the performance indicators including preparing and presenting reports and the BVPP audit.

Audit budget and fees

The Audit Commission has provided indicative audit and inspection fee levels for Authorities for the 2004/05 financial year, which depend upon the level of expenditure, CPA category and potential risk. Based on Brent's budgeted expenditure for 2004/05, the indicative fee for audit and inspection for the Council is:

	£000
High risk	640
Medium risk	493
Low risk	345

Due to the risks detailed earlier, we categorise the Council as between medium and high risk and propose a fee of £530,000. This fee has been broken down across the different components of our work as follows:

	2004/05 £000	2002/04 £000
Accounts & Governance	260	260
Performance	264	220
Inspection (2004/05 Indicative)	106	160
Total	630	640

The fee is payable from 1 April 2004 and excludes VAT. Fees for grant claims, challenge work and reviewing initiatives such as proposed PFI arrangements are specifically excluded from the fee.

Audit budget and fees

The Inspection work undertaken by the Audit Commission is likely to include the following

- Culture (Sport) – Whole Service Inspection
- Regulatory Services (Planning & Dev control) – Whole Service Inspection
- Qualitative Assessment – continuous improvement

The full inspection programme for 2004/05 and beyond has already been shared with the Council and other inspectors at the Round the Table meeting.

Our performance programme includes the audit of the 2004 BVPP and some of the following potential studies:

- Revenues & Benefits – arrears of benefits overpayments and focus on complaints/response times
- Procurement – work to be agreed; providing additional capacity and/or concentrating on specific aspects of the procurement process
- Risk management – work to be agreed
- Wardens service – value for money, development of performance indicators and project tracking
- Work with The Council and Brent Primary Care Trust at preparing for joint commissioning/section 31 pooled budgets

Audit budget and fees

The 2002/04 fee was for a 17 month period ended 31 March 2004. This fee included two years' accounts and governance work and a single year for performance and inspection. The 2002/04 fee has been re-stated in the previous table to show a single year's accounts and governance fee.

The re-stated 2002/04 comparative fee shows that we have reduced our 2004/05 proposed fees. We have yet to agree formally the content of our performance programme, so we have set out an illustrative list of likely studies, based on recent discussions with officers. We expect to carry out some, but not all of these studies in 2004/05, depending on relative priorities.

The fees for inspection work to be undertaken by the Audit Commission have yet to be agreed with the Council's Relationship Manager.

We will discuss and agree the scope and reporting requirements of the above work in writing with officers before undertaking the reviews.

We have based the fee level on the following assumptions:


- Officers meeting the timetable of deliverables, which we will agree in writing;
- That we are able to place reliance, as planned, upon the work of internal audit; and
- That we are able to draw more comfort, than we have been able to in previous years, from the management controls within the Council.

If these assumptions prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.



Appendix A – Developments in accounting standards

The table below summarises the most significant recent and likely future developments in accounting standards and specific local government accounting requirements:



- Red traffic light – indicates significant impact now
- Yellow traffic light – indicates some impact now or impact will be in future years (2005 onwards)
- Green traffic light – indicates minimal impact

Document		Significance to audited body	Status
Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice (the SORP)		<p>The CIPFA/LASAAC Joint Committee is proposing that the SORP applicable to 2004/05 will be amended to include more robust provisions in relation to group accounts (see Key Business and Audit Risks section).</p> <p>It is also proposed that the discount factor to be applied in calculating FRS 17 liabilities is amended from a figure set by CIPFA/LASAAC to a figure determined by authorities in line with the requirements of the FRS.</p> <p>In the longer term, proposals to streamline capital accounting requirements are being developed.</p>	<p>Substantial impact in 2004/05 for authorities with controlling interests in other entities.</p> <p>All authorities to be aware of the potential impact of a change in the basis of the FRS 17 discount rate (lower discount factor would increase disclosed liabilities).</p>




Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
CIPFA Best Value Accounting Code of Practice		CIPFA has yet to issue any consultation proposals for the Best Value Code for 2004/05. It is not anticipated that any fundamental developments will take place, apart from changes consequent upon amendments to the SORP (eg, the treatment of the activities of consolidated entities in the total cost of services).	Potentially substantial impact in 2004/05 for authorities with controlling interests in other entities.
Amendment to FRS 5 – application note G		The ASB has issued new rules on revenue recognition. The application note sets out the principles of revenue recognition and specifically considers five key areas. The area that will have the most impact in local government is the presentation of income by principals and agents, affecting authorities that enter into partnerships or host joint arrangements.	Should inform local authority accounting henceforth. No explicit need for SORP amendments.


Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
International accounting standards		<p>From 1 January 2005, listed companies (including banks and insurance companies) will have to use International Accounting Standards (IAS) when preparing their accounts. As yet, there has been no indication as to when International Accounting Standards will have to be adopted by local government, either through amendments to the SORP or as a result of Whole of Government Accounts developments.</p>	<p>Not applicable in local government yet. Potentially relevant to group accounts if companies are listed.</p>
Operating and financial review		<p>In January 2003, the ASB issued a revised statement on the operating and financial review (OFR). In local government the Explanatory Foreword provides the context for the statement of accounts. The ASB statement sets out a series of principles that should be applied when preparing the OFR that changes the focus from presenting results to giving a view on performance and the influences thereon in the past year and in the future.</p>	<p>Not applicable in local government yet. Will require amendment to the Accounts and Audit Regulations or the SORP.</p>


Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
UITF 36 “Contracts for sale of capacity”		This abstract deals with entities that sell rights to use capacity in their networks, for example, telecoms and electricity. The abstract deals with the circumstances in which these transactions can be reported as sales.	Applicable in theory but unlikely to apply in practice.
UITF 37 “Purchase of own shares”		From 1 December “The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations” come into force and this UITF addresses the accounting issues arising from these Regulations.	Not relevant to local authorities. Potentially applicable to group accounts
UITF 38 “Accounting for ESOP trusts”		This abstract sets out requirements for recognising the extent of a sponsoring entity’s assets and liabilities under employee share ownership plans.	Not relevant to local authorities. Potentially applicable to group accounts.


Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
ICEAW guidance on prospective financial information.		In October 2003 the ICEAW issued guidance on forward looking financial information which includes forecasts of results, working capital, funding requirements and disclosures in the OFR. The guidance encourages the adoption of principles of reasonable disclosure, business analysis and subsequent validation.	Best practice guidance.

Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
<p>Tech 24/03 “Audit and non-audit fee disclosure”.</p>		<p>In July 2003, the ICEAW issued technical release 24/03 which recommends that annual reports should include disclosure of all fees due to the principal auditor and its network firms in relation to work performed for, or in relation to, the audited body. It recommends that the fees should be analysed between audit services, further assurance services, tax services and other services. In local government, authorities must apply the provisions of the SORP, which does not require a split of non-audit or inspection services.</p>	<p>Best practice guidance.</p>

Appendix A – Developments in accounting standards

Document		Significance to audited body	Status
Statement of Principles for public benefit entities		In May 2003, the ASB issued a discussion paper on the proposed interpretation of the statement of principles for public benefit entities. The consultation period ended on 1 August 2003. The paper suggests that in many cases the fundamentals of accounting are the same as for profit-oriented entities although there are instances where revision of the principles is required.	Still in draft.

Appendix B – Other engagement information

The Audit Commission appoint us as auditors to Brent Council and the terms of our appointment are governed by:

- The Code of Audit Practice;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

1. Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks of and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and The London Borough of Brent and PwC (in each case including our respective partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.

The exclusion of liability in the paragraph above shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective partners, employees, agents or servants.

Appendix B – Other engagement information

2. Appointed auditor

Mike Robinson, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although he is not a partner.

3. Access to audit working papers

We may be required to give access to our audit working papers for regulatory purposes or because of other statutory obligations. Typically, in the case of a local government or health body, this would be to the Audit Commission or the National Audit Office for quality assurance purposes.

4. Quality arrangements

It is our desire to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Glyn Barker, Assurance and Business Advisory Services leader for the UK, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we are able to ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Appendix B – Other engagement information

5. Events arising between signature of accounts and their publication

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and the their publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.