

Final Accounts report

**London Borough of Brent and
Brent Pension Fund**

Audit 2008/09

November 2009

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

- any director/member or officer in their individual capacity; or
- any third party.

Summary report

Introduction

- 1 This report details the main findings of our audit which was completed on the 29 September 2009 and resulted in an unqualified opinion. The report is prepared for management and is in addition to our earlier Annual Governance Report which was reported to those charged with governance.

Background

- 2 The Accounts and Audit Regulations 2003 require Local Authorities to prepare a statement of accounts in accordance with proper practices (CIPFA Statement of Recommended Practice (SoRP)).
- 3 We are required by the Code of Audit Practice to give an opinion on whether the Council's accounts present fairly:
 - the financial position of the Council and its income and expenditure for the year; and
 - the financial transactions of the Pension Fund for the year and the amount of disposition of the fund's assets and liabilities at the year end, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 4 Our opinion covers the following statements:
 - Income and Expenditure Account;
 - Balance Sheet;
 - Cash Flow Statement;
 - Housing Revenue Account;
 - Collection Fund;
 - Group Accounts;
 - Pension Fund Statement; and
 - supporting notes to the statements.
- 5 In addition we issue an opinion on the Whole of Government Accounts consolidation pack and a value for money conclusion.

Main Audit Findings

- 6 The most significant findings were reported to those charged with governance in our ISA (UK&I) 260 Annual Governance Report. These are detailed in table 1.

Table 1 Audit Findings reported to those charged with governance

Issue or Risk	Finding
Valuations relating to certain leisure and educational land and building operational assets were incorrectly treated in the draft financial statements resulting in an overstatement of the revaluation reserve.	The financial statements were amended to correctly recognise the change in valuations of individual assets.
The Council identified a control weakness in its procedures over the financial management of foundation schools. This has been reflected in the Annual Governance Statement.	The Council has strengthened its arrangements in respect of controls in place over foundation schools.
Since the introduction of the Council's new payroll system difficulties have been experienced in undertaking reconciliations on the payroll system to the general ledger. As a result some monthly reconciliations were not undertaken.	The year end reconciliation has been produced and the Council is now undertaking monthly reconciliations.
The Pension Fund accounts included unquoted investments which had been valued at September 2008 rather than the latest accounts available to the Council. This resulted in an overstatement in the net asset statement.	The Pension Fund accounts were amended to reflect the updated valuation, in line with the Pension Statement of Recommended Practice (Pension SoRP).
The Pension Fund accounts did not include details of the contractual commitments it had relating to potential future investments in the private equity mandate.	The Council added an additional disclosure note to the Pension Fund accounts.

- 7 During our interim audit we gained an understanding of the organisation and its environment and assessed the risks of material misstatement as required in ISA (UK&I) 315. This entailed having discussions with key contacts in each department to gain an understanding of the organisational structure and documenting and walking through individual material financial systems. As we were only able to gain limited assurance that controls had been consistently applied across all departments of the Council throughout the whole of the

Summary report

financial year we undertook additional substantive testing to gain assurance over the transactions and balances within the accounts.

Next steps

- 8 In conducting this audit, we identified opportunities for the Council to improve its internal controls and financial reporting. The action plan, included as appendix 1 to this report, sets out recommendations to support improvement.
- 9 We would like to take this opportunity to thank the Council officers for the assistance provided over the course of the audit.

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Detailed report - London Borough of Brent

Introduction

10 This section covers:

- internal control weaknesses identified within departments; and
- matters arising from our post statement audit work.

Internal Control Weaknesses

Journals - all departments

11 Our testing found that there were limited controls in place to create, post or approve journals. In addition, we found in some departments there was no segregation of duty in creating and posting journals, with the same officer carrying out both tasks. These weaknesses in the control environment create a risk of financial error or loss. As a result of these weaknesses we performed additional substantive testing of journals.

Recommendation

R1 Strengthen the process for creating, posting and approving journals to ensure appropriate controls are in place, including segregation of duties.

Children and Families

12 Our testing found weaknesses in the following areas:

- Purchase orders - formal procedures for raising purchase orders were not operated during 2008/09.
- Payment runs - authorisation of payment runs were not always evidenced by reports being signed by two signatories.
- Control accounts and reconciliations - there is insufficient evidence that control accounts and reconciliations (accounts payable, accounts receivable, payroll and bank) are independently reviewed.

Recommendation

R2 Operate formal procedures for raising all purchase orders.

R3 Ensure all payment runs are authorised and signed by two signatories.

R4 Evidence independent review on all control accounts and reconciliations.

Housing

- 13** Our testing found that there is insufficient evidence that control accounts and reconciliations (accounts payable, accounts receivable, payroll and bank) are independently reviewed.

Recommendation

R5 Evidence independent review on all control accounts and reconciliations.
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Adult Social Care

- 14** Control account reconciliations for accounts payable and accounts receivable prior to February 2009 were not available.
- 15** Payroll reconciliations were performed monthly, but did not contain details of who prepared the reconciliation, when it was prepared and who it was reviewed by.
- 16** Payment runs were sometimes signed as authorised by one individual rather than two.

Recommendation

R6 Retain all documentation and include evidence of independent review on all control accounts and reconciliations.
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R7 Ensure all payment runs are authorised and signed by two signatories.

Environment

- 17** Our testing did not identify any significant weaknesses in internal controls within this department.

Finance and Corporate Resources

- 18** Our testing found that documentation to support accounts receivable invoice requests were not always retained.
- 19** We also found that there is insufficient evidence that bank reconciliations are independently reviewed.

Recommendation

R8 Retain all documentation to support the audit trail for accounts receivable.
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R9 Include evidence of independent review on bank reconciliations.

Post Statements Audit

Accounts Presentation and Working Papers

- 20** The devolved structure of the Council means that each unit completes a year-end workbook which is entered into the SUN system which is used to produce the Council's accounts. The quality of the information provided in the workbooks was variable in terms of depth of detail and adequacy of the audit trail and this is an area that needs to be improved in future years.
- 21** There are a large number of key contacts across the organisation and working papers for some items (e.g. investments, loans and borrowings, and cash flow statement) are held by individual staff. The Council should consider preparing a single central working paper file (either manually, or ideally electronically). This would aid the Council's review procedures prior to approval of the accounts, assist both the authority and the audit team if key individuals are unexpectedly unavailable and improve efficiency of the audit process.
- 22** Queries raised during the course of the audit were generally answered promptly, but some delays were experienced. These delays resulted in late adjustments to the accounts.

Recommendation

R10 Provide a full audit trail between the individual unit workbooks to the accounts.

R11 Perform and evidence internal quality review checks on the accounts and supporting working papers.

R12 Prepare a central working paper file for the accounts audit.

R13 Respond to all audit queries in a timely manner.

Fixed Assets

- 23** During 2008/09 the Council re-valued a proportion of its land and building assets. This resulted in a £19.9 million downward valuation of leisure and educational land and a £0.7 million downward valuation of HRA properties. These items were accounted for in the draft accounts by adjusting the revaluation reserve. Accounting Standards require downward revaluations to be recognised in the income and expenditure account unless they arise on previously re-valued fixed assets. Our testing found that £20.2 million (all of the £19.9 million and £0.3 million of the £0.7 million) should have been taken to the income and expenditure account. The accounts were amended to correct this error.
- 24** Land at Wembley Primary School with a value of £3.4 million was not included in the accounts. This omission was due to an error during the transfer of information from the fixed asset register to the financial accounts working papers. The accounts were amended to correct this omission.
- 25** The SoRP guidance notes state that authorities should consider revising asset values at each year-end to ensure that the accounts do not include values that are completely erroneous following permanent changes in asset values. The

Detailed report - London Borough of Brent

Council performed a full valuation of its fixed assets in 2004 and has subsequently re-valued a proportion of assets. The Council did not produce working papers that considered the value of assets that had not been re-valued in 2008/09. The Council should ensure that it produces comprehensive working papers that consider the appropriateness of assets that have not been re-valued to ensure that these are not materially misstated. We performed a review of the Council's fixed assets to confirm that the values in the 2008/09 accounts were not materially misstated.

Recommendation

- R14** Review fixed asset revaluation reserve accounts to ensure that downward revaluations are correctly accounted for where there are insufficient revaluation balances.
- R15** Strengthen fixed asset year end closedown procedures to ensure that all items are included in the accounts.
- R16** Perform formal review of the Council's fixed assets to ensure that the accounts do not contain entries that are completely erroneous following permanent changes in asset values.

Debtors

- 26** Our testing of debtors found that in the Children and Families department cash received before the year end had not been matched against invoices and therefore the items were shown as a debtor balance in the draft accounts. Further work was performed by the Council in this area and the final accounts were amended by £0.4 million.

Recommendation

- R17** Match cash receipts against specific invoices in the accounts receivable ledger and perform monthly review of suspense accounts to identify and correct unmatched cash receipts.

Bad Debt Provision

- 27** Bad debt provision calculations had not been updated since the previous year at some business units. The SoRP guidance notes state that a debtor's impairment exercise is to be undertaken annually and the provision for bad debts to be revised accordingly. The Council updated its bad debt provision calculations prior to approval of the final accounts.
- 28** The draft accounts did not include a note analysing the bad debt provision. The Authority included these details in the accounts presented to members in September 2009.

Recommendation

R18 Undertake comprehensive year end reviews of the adequacy and appropriateness of bad debt provisions.

R19 Include all disclosures required by the SoRP or considered to be best practice in the accounts.

Creditors

29 Our testing of creditors found that in one department (Housing) the balance was stated net of £0.6 million of debit balances. This was amended in the final set of accounts approved in September 2009.

Recommendation

R20 Review creditor balances to ensure that they are not reported net of any debit balances on the ledger.

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Detailed report - Brent Pension Fund

Pension Fund

- 30** Our review of pension fund investments found that the valuation of a private equity investment was primarily based on the fund's un-audited accounts as at 30 September 2008 adjusted for subsequent cash movements. We would usually expect the valuation of unquoted investments to be based on the latest available audited accounts adjusted for subsequent cash movements. The value of this investment was reduced by £5.9 million in the final accounts to reflect the position reported in the private equity investment companies audited accounts as at 31 December 2008.
- 31** The Pension SoRP requires the accounts to disclose details of future commitments to private equity schemes. The accounts were amended to include details of the £52 million contractual commitment to a private equity fund.
- 32** Minor changes and disclosure amendments were made to the Pension Fund statement and its accompanying notes to ensure accuracy and compliance with the SoRP.
- 33** New guidance covering the requirements of the pension fund annual report was issued late. The Authority did not produce a final pension fund annual report by 30 September which was reported within our audit opinion. The deadline for the Authority to produce a final pension fund annual report is 1 December 2009.

Recommendation

- R21** Compare valuation of unquoted investments held by the Pension Fund to latest available audited accounts, adjusted for subsequent cash movements. Monitor the value of unquoted investments up to the date of approval of the accounts and make adjustments to reflect any significant changes in valuation.
- R22** Include all disclosures required by the Pension SoRP or considered to be best practice in the accounts.
- R23** Include provision for the preparation of the pension fund annual report and collection of supporting information in the 2009/10 accounts timetable.