

Progress Report

December 2010

Brent London Borough

Audit 2009/10

Audit Committee 16 December

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Status of our reports

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.
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Summary

Introduction

1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress

2 Our 2009/10 audits of the Council and its Pension Fund are complete. The 2009/10 Annual Audit Letter was agreed with the Chief Executive and Director of Finance and Corporate Resources. This is included on the Agenda for the Audit Committee's consideration. This summarises audit for the 2009/10 year.

International Financial Reporting Standards

3 We have summarised the International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

International Financial Reporting Standards: Reporting on operating segments (October 2010)

4 The latest technical briefing paper in our series on implementing International Financial Reporting Standards (IFRS) in local government is 'Reporting on operating segments: Countdown to IFRS in local government'. The paper covers principles and practical issues that authorities should consider when reporting on operating segments, and addresses the following questions:

- What are operating segments?
- Which operating segments should be reported separately?
- When can segments be aggregated?
- What are the required disclosures?
- What lessons can local authorities learn from the NHS experience?
- What issues do local authorities need to consider?

5 We hope that this briefing paper will help local authorities and their finance teams to undertake preparatory work for the transition to IFRS, including work on the restatement of prior year accounts and skeleton accounts for 2010/11.

International Financial Reporting Standards: Progress on the transition to IFRS (October 2010)

6 We report on the progress of local government's transition to IFRS.

7 The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local

government to manage a major change in its financial arrangements. We hope this briefing paper will help support the transition to IFRS in local authorities.

8 The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS.

9 In this paper we:

- make comparisons with a baseline assessment taken in November 2009;
- set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
- outline the key actions that authorities should be taking at this stage.

Recent Audit Commission announcements and publications

10 The Audit Commission produces a regular Councillors' Update. This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work. If you have not automatically received your copy of Councillors' Update, please subscribe via the following link: [Councillor Update newsletter - Audit Commission](#)

Opinion on the 2010/11 financial statements (October 2010)

11 In 2009 the audit profession completed a comprehensive project to enhance the clarity of International Standards on Auditing (ISAs). This is known as the Clarity Project. The new clarified framework will apply to the audit of your 2010/11 financial statements. The main changes that you will see relate to:

- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal controls.

12 Further details of the changes are set out in the full report.

13 There are also revised templates for a joint accounts working protocol and working paper requirements which have been made available. We will seek to agree these with the Council in January 2011. This has been attached at appendix 3.

Financial management of personal budgets (October 2010)

14 This report examines personal budgets in adult social care and considers the financial management and governance implications for councils.

15 It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications.

16 It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

17 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement

Protecting the public purse (October 2010)

18 In our report Protecting the public purse: fighting fraud against local government and local taxpayers, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify more fraud risks and urge local councils and related bodies to focus on them

19 Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.

20 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

Appendix 1 – Key Deliverables 2009/10

Table 1 Progress on Key Deliverables for 2009/10

Product	Timing	Current position
Planning		
Audit Plan	January 2009- March 2009	Plan presented to Audit Committee in June 2009
Opinion		
Work on financial systems	December 2009 – June 2010	This complete. We have completed out Opinion plan and presented to Audit Committee in March 2010
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2010	This is complete, and our Annual Governance Report (AGR) was presented to the September Audit Committee.
Use of Resources		
Health Inequalities phase 1 phase 2	May 2010 October 2010	Phase 1 complete and report issued Phase 2 complete and report issued
Performance management follow up	June 2009 to December 2009	Review complete and report issued
HR follow up	December 2009 to February 2010	Review complete and report issued
Project management review	January 2009 to March 2010	Review complete and report issued
Value for money conclusion	June 2010 to September 2010	Our draft unqualified opinion is included in the AGR
Use of resource judgements	February to July 2010	This work was stopped based on the new government's direction

Appendix 2 – Key deliverables 2010/11

Table 2 Progress on Key Deliverables for 2010/11

Product	Timing	Current position
Planning		
Audit Plan	January 2010- March 2010	Plan presented to Audit Committee in June 2010
Opinion		
Work on financial systems	December 2010 – June 2011	
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2011	
Use of Resources		
Building schools for the future		This will not take place as a result of the government cancelling the Brent projects.
Project management review		
Value for money conclusion	June 2011 to September 2011	
Use of resource judgements	February to July 2011	This is no longer applicable.
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 3: 2010/11 audit - changes you can expect to see

Purpose of this document

21 As your appointed auditor, the audit of the financial statements I deliver to you, are governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

22 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

23 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

24 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

25 In summary the main changes you will see cover:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Group Accounts; and
- Reporting deficiencies in internal control.

Impact of the main changes

Journals

26 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as

CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related Party Transactions

27 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

28 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Group Accounts

29 ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. Because of the changes, you will see an increase in communication between yourselves, me and other entities within the group. I will also need to know:

- the controls involved in the group, for example, accounting policies used or how you manage different year ends;
- what is involved in the consolidation process; and
- whether any other auditors are used to audit part of the group.

Deficiencies in internal control

30 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

31 If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee [tailor as appropriate] as those charged with governance.

DRAFT

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
