

Annual governance report

Interim report as at 2 September 2011

London Borough of Brent

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	My findings
Unqualified audit opinion	◆
Significant weakness in internal control	◆
Proper arrangements to secure value for money	TBA

Audit opinion and financial statements

Significant difficulties encountered during the audit

1 It has been particularly difficult year for the Council, implementing new financial systems and International Financial Reporting Standards (IFRS) whilst also dealing with structural change, staff losses, and a highly challenging budget settlement. This has stretched finance resources and impacted on the Council's ability to produce good quality financial statements and working papers.

2 Significant effort has been required to implement the new financial system and bring about the cultural changes required for more streamlined and efficient financial reporting. Information has been combined from a number of systems into one. It has been a complex

and time consuming exercise. Time spent now on thorough data cleansing will enable the Council to improve the quality and speed of financial reporting in future years.

3 Consequently, my audit is taking significantly longer than anticipated. I was not able to start the audit as planned due to the receipt of late and incomplete working papers. Initial responses to audit queries were slow. Audit trails are overly complex because of the high number of adjustments made to correcting transactions within the new system. I carried out a significant amount of additional testing because I was not able to place reliance on internal controls. This has lead to a high volume of audit queries and proposed audit amendments. There remain some key reconciliation differences that need to be explained.

4 To date, my audit has identified six material errors in the financial statements and a significant number of non-trivial, non-material errors

The way forward

5 I have been working with the Director of Finance and his finance team to resolve the issues. However, there remains a significant amount of audit work to complete. Consequently, I do not expect to be

in a position to issue my audit opinion by the due date of 30 September 2011.

6 I have discussed the position with the Director of Finance and we have agreed a revised date for the completion of the audit. Providing my audit queries are resolved, and I am able to complete the bulk of my fieldwork by the end of September, I anticipate that the Council will be able to clear final queries and produce revised financial statements by 14 October. This will enable me to complete my final review and closure procedures and issue my opinion late October 2011, subject to the Audit Committee considering my final Annual Governance Report.

7 To comply with legislation, the Council is required to approve and publish its unaudited financial statements by the end of September 2011. A subsequent Audit Committee will be arranged to review the final Annual Governance Report and approve the audited financial statements.

8 I reported in my opinion audit plan that I planned to charge a fee of £488,000 for the audit. My estimated fee was based on the Council producing good quality financial statements, working papers and audit trails on a timely basis. Because of the issues identified above, I expect

to charge an additional audit fee which I will discuss and agree with the Director of Finance following completion of the audit.

Value for money

9 I have substantially completed my work on value for money. I confirm that in the majority of areas reviewed the Council has maintained adequate arrangements to secure economy, efficiency and effectiveness in your use of resources. However, I will need to assess the impact of the Council's financial reporting arrangements once the audit on the financial statements has been substantially completed, before I decide on the nature of the vfm conclusion.

Conclusion of the audit

10 I will need to conclude on outstanding elector queries and legality queries before I formally conclude the audit and issue my certificate closing the audit. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements.

Before I complete my audit

11 I am not able to complete my audit in September. However, I have included the following section to present what will be required from you before I conclude my audit. I anticipate completing my audit in October, and presenting the final Annual Governance Report to the Audit Committee (meeting to be arranged).

I confirm to you

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

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

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

12 I commenced my audit on 4 July following completion of the Council's financial statements on 30 June. I received the financial statements later than anticipated. The financial statements I received for audit were of poor quality. They omitted private finance initiative and school lease accounting entries as required under IFRS and contained numerous other disclosure and qualitative errors. Working papers to support the financial statements were not available at the start of the audit.

13 Initially, responses to my audit queries were slow. During the course of my work it became clear that the introduction of the new accounting system and IFRS had stretched the capacity of the finance team. A high level of transactions have been raised to due to the system implementation issues. This has led to convoluted and time consuming audit trails to get back to source documentation to support income and expenditure.

14 Year end closedown procedures were not robust and did not take account of the changes required for more centralised year end financial reporting arrangements. Data migrated to the new system was not been properly reconciled and/or cleared, there are significant unexplained differences on key bank reconciliations.

15 I have yet to complete the following areas of audit work:

- mandatory testing (IFRS conversion, disclosures, journals);
- Income and expenditure (mainly internal income, schools and overhead allocation);
- Movement in Reserves Statement;
- Non-current assets;
- Assets held for sale;
- Cash and bank;
- Creditors;
- Contingent liabilities;

- Reserves;
- Cash Flow Statement;
- Group accounts;
- Private Finance Initiative (PFI) contracts;
- Financial instruments; and
- final review and closing procedures.

16 The completion of my testing in these areas are delayed for various reasons, including the volume of audit queries raised, number of unreconciled balances migrated to the new system. We have worked closely with the Council and had regular meetings with the Director of Finance during August. This has led to significant improvements in the time the Council is taking to respond to audit queries and in providing information to support the balances in the financial statements.

17 Appendix 1 contains an example an unqualified audit report.

Errors in the financial statements

18 During the course of my audit I identified the following material errors in the financial statements:

- A large downward revaluation of £240,153,000, caused by changing the valuation basis for Council housing stock, has been incorrectly treated as Other operating expenditure in the Comprehensive Income and Expenditure Statement (CI&E). This should be reclassified to the net cost of services within the CI&E. This has no impact on the reported surplus;
- A large negative past service cost of £117,950,000, reducing the value of the pension liability, has taken place. This is caused by basing annual pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI), and has been incorrectly treated as Other operating expenditure. This should be treated as a Net cost of service cost within the CI&E as required by International Accounting Standard: Employee Benefits (IAS19). This has no impact on the reported surplus;
- £4,871,000 of school cash and cash equivalents were incorrectly classified as current account bank balances, £11,141,000 should be disclosed as short term deposits with building societies and (£6,271,000) of overdrawn balances. This has no impact on net assets;
- An error was made while entering the valuation for land at Copland Community School into the Council's asset manager system by the valuation team. This resulted in an understatement of land in the balance sheet of £12,685,179. This asset needs to be revalued upwards by £12,685,179, the impairment of £6,000,000 reversed and a revaluation gain of £6,685,179 recognised. This leads to a £12,685,179 increase in net assets;
- The Council's accrual relating to employee leave (£9,589,000) was incorrectly classified as a provision. This needs to be reclassified as a short term creditor. This has no impact on net assets; and
- £9,261,397 of grant income relating to the dedicated schools grant programme for 2011/12 was incorrectly included in the 2010/11 financial statements and treated as a cash receipt and deferred income at 31 March 2011. The income was received in April 2011 and should not have been included in the 2010/11 statements. This has no impact on net assets.

- 19** During the course of my audit I identified a significant number of non-trivial, non-material errors in the financial statements. Appendix 2 sets out those which the Council has amended.
- 20** The cumulative impact of all agreed adjustments is to increase the reported surplus and net assets by £5,052,000.
- 21** There were also a number of non-trivial, non-material errors, which were not amended by the Council. These are set out below, and in Appendix 3:
- My review of debtors in the Iworld system (Housing Benefit overpayments) showed variances between the general ledger and system reports which were run at different dates. The latest report for the period ended 31 March 2011 is £657,000 greater than the ledger balance. Therefore, I am unable to conclude on these uncertainties;
 - I identified an uncertainty with a creditor balance. The detailed analysis provided is £278,000 greater than the general ledger balance; and
 - I found £178,000 of mortgage debtors where limited evidence was available to support their recoverability, and associated deferred credits.

Recommendation

Recommendation

- R1** Ensure reports from subsystems are obtained and reconciled to the general ledger at year end.
- R2** Review all debtors (mortgage debtors) for recoverability at year end and ensure working papers are available to support their existence.
-

Financial statements

22 In planning my audit I identified risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>1. Transition to International Financial Reporting Standards</p> <p>The Council is required to prepare the 2010/11 financial statements according to International Financial Reporting Standards (IFRS) (including a full re-statement of 2009/10 balances).</p> <p>This poses a significant risk of material misstatement to the financial statements.</p>	<p>In 2010/11, my audit team has:</p> <ul style="list-style-type: none">■ monitored the implementation of IFRS at key stages; and■ reviewed restated 2009/10 balances. <p>I rated the Council's progress on IFRS implementation as red (Not on track/Significant issues) and reported this to the Audit Committee in February 2011. The financial statements presented for audit were not complete and not fully compliant with IFRS. The financial statements omitted transactions relating to school leases and PFI contracts. I identified a large number of areas where the financial statements did not comply with IFRS disclosure requirements, the most significant of which related to the Movement in Reserves Statement. Further detailed analysis is found at the Quality of financial statements section of this report.</p> <p>I will review the Council's revised financial statements again when my audit work has been completed and the Council has made the agreed changes.</p>
<p>2. Consolidation and migration of main accounting system</p> <p>The Council has made significant changes to its financial IT systems. Separate departmental arrangements and systems have been consolidated into one Oracle system used throughout the Council, including the general ledger, accounts payable and accounts receivable. There have been associated staff losses and some staff have very different roles within finance, as part of modernising the</p>	<p>My audit team has:</p> <ul style="list-style-type: none">■ considered reviews performed by Internal audit on the system changes;■ reviewed the migration of data from existing systems to the new financial system;■ reviewed controls over the new financial IT systems;■ documented and tested the new financial systems;■ performed controls testing, taking consideration of Internal audits work; and■ substantively tested the output during our final accounts audit. <p>My review of the change process confirmed that the data was migrated to the new</p>

Key audit risk	Finding
<p>service. These changes took place effective 1 September 2010. This is part of the 'One Council' Improvement and Efficiency strategy.</p>	<p>system, although there was limited evidence of controls over the process in place.</p> <p>My audit identified numerous migration balances which have not been reconciled. This has been more time consuming to audit, given the complex audit trails involved and to ensure there is no material impact on the reported surplus. This also represents a control weakness as these are unresolved seven months after migration. Monthly reconciliations of balance sheet accounts should identify and ensure significant reconciling and unreconciled items are cleared in a timely manner.</p> <p>Significant concerns were not identified at our regular meetings with officers. Additionally, I provided anonymised copies of close down plans from three other London Boroughs. However, weaknesses identified during my audit will need to be considered when revisiting close down arrangements for 2011/12 onwards.</p> <p>Where work is complete, I've received sufficient evidence to complete my substantive testing.</p> <p>My audit work which is incomplete, e.g. cash and bank, includes further migration balances for testing.</p>
<p>3. Impact of Council savings plans</p> <p>The Comprehensive Spending Review has put significant pressure on the Council to reduce costs. This may result in reductions to staff. The Council will need to assess the impact on the finance process and whether accounting is required for redundancy provisions.</p>	<p>My audit team has reviewed accounting arrangements and year end balances to account for redundancies in accordance with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS37).</p> <p>My work on the redundancy provision is currently in progress.</p>
<p>4. Continued correct accounting for service concessions</p> <p>The Council has five arrangements accounted for under International Financial Reporting Interpretation Committee 12: Service Concession Arrangements (IFRIC12). The Council will need to continue to account for these appropriately, and consider any changes e.g. new asset</p>	<p>My audit team has:</p> <ul style="list-style-type: none"> ■ reviewed arrangements to ensure any changes are identified and accounted for; and ■ audited year end balances. <p>I found one error in accounting for service concessions, which were brought onto the Council's balance sheet in 2009/10 relating to the unitary payment. The actual payment of £1.8m was not reconciled to the £1.1m payment in the accounting model. This revision has now been agreed to a ballot to allocate ownership between the</p>

Key audit risk	Finding
transfers or variations to the original agreement.	<p>Council and the contract operator. The allocation of ownership is the basis for allocating rents, unitary payment and liability.</p> <p>The Council have forwarded this onto their accounting consultants to revise the model. I will review this and the final journals once complete.</p> <p>The Council entered into phase two of its Housing PFI in 2010/11. My audit work has uncovered inconsistencies in the valuation of the 2010/11 assets between the operator model and the internal valuer. This is currently close to finalisation.</p> <p>I will review the Council's revised calculations and accounts once the amendments are complete.</p>

Recommendation
<p>R3 Ensure financial statements include all relevant accounting entries for the year under review</p> <p>R4 Ensure closedown arrangements are managed against a close down plan, clearly identifying roles, responsibilities and target dates</p> <p>R5 Ensure working papers used to prepare the financial statements are collated and maintained to support the audit and financial statements on a timely basis</p> <p>R6 Review the accuracy of PFI accounting entries and review for in year changes in agreements</p> <p>R7 Ensure quality control and internal review processes are part of the close down process</p>

Financial statements

Significant weaknesses in internal control

23 I have identified the following significant weaknesses in internal control:

- reconciling and clearing data post migration; and
- main bank reconciliation.

24 These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

25 In my interim report in February 2011 I reported weaknesses in internal control. This included journals, cash and bank, accounts payable, council tax, NNDR and IT controls as follows:

- controls over authorisation of journals did not operate throughout the year;
- evidence to support authorisation of payment runs or BACS payments were not always retained or approved in accordance with the Council's written procedures;
- the introduction of the new Oracle system during the year resulted in a period where the Council needed to operate transitional procedures before properly establishing formal controls and procedures for the accounts payable and accounts receivable systems;
- reconciliations between the council tax and NNDR systems, bank accounts and cash receipting systems were not completed throughout the year due to the transition to the new Oracle system. These reconciliations were finalised at the year end but some contained significant reconciliation differences;
- there is no formal documented IT problem and incident management policy in place;
- there is no formal IT disaster recovery/business continuity plan in place; and
- no IT back-up restoration testing has been undertaken during the last twelve months for Oracle Financials and Interact.

26 I identified further internal control weaknesses during the course of my audit of the financial statements as set out below.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
1. Cleansing of data post migration My sample testing has identified unreconciled	Unreconciled migrated balances are more susceptible to changes in their nature to not be	R8 Clear all significant unreconciled migrated balances

Description of weakness	Potential effect	Management action
migrated balances throughout the audit. This includes debtors, creditors and bank. These items have complex audit trails and require knowledge of specific individuals to resolve.	accounted for i.e. a migrated credit balance may have a new creditor raised, and no change is made to reduce the migrated balance by the opposite amount.	
<p>2. Main bank reconciliation</p> <p>The reconciliation provided to audit for 31 March 2011 included £6.6bn of gross outstanding items. Not all the outstanding items are proper bank reconciliation items, and include reconciling balances.</p> <p>The bank reconciliation was to the transactions processed from 1 September using a nil starting balance. This is opposed to importing the starting bank reconciliation and reconciling to the closing bank statement balance of the relevant periods. This has contributed to unreconciled migrated balances not being cleared in a timely manner.</p> <p>As a result of our audit, the Council are currently reconciling and clearing outstanding items. The latest reconciliation provided to audit has a reduced the gross outstanding items from £6.6bn to £435m.</p>	<p>Significant errors could exist in these large outstanding balances.</p> <p>The effectiveness of the bank reconciliation as a control is undermined by the large outstanding items and not reconciling to the closing bank statement balance.</p>	<p>R9 Clear material outstanding items in a timely manner</p> <p>R10 Reconcile the bank account to the bank statement balance</p>

27 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

Financial statements

Quality of your financial statements

28 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

29 This year has been challenging for local government with the introduction of IFRS. Given the scope and depth of disclosures required by IFRS, there was an increased likelihood of disclosure errors in the first year of IFRS implementation. Notwithstanding these challenges, a comparison with other London Boroughs has indicated a higher number of significant disclosure errors in the Council's financial statements. These largely relate to the Movement in Reserves statement.

30 These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
<p>1. Disclosures in the financial statements</p> <p>The initial draft financial statements did not meet all the disclosure requirements of the CIPFA Code of Practice on Local Authority accounting. Various omissions and additions to disclosures have been agreed arising from our audit.</p> <p>The incomplete accounts (PFI and school leases) highlight the pressure the Council was under to complete the financial statements on time. This pressure has minimised positive impact of potential self review of financial statements against disclosure checklists prior to audit.</p>	<p>Agreed amendments have been summarised and detailed below:</p> <ul style="list-style-type: none">■ Various notes were omitted from the financial statements, including:<ul style="list-style-type: none">– Material estimates included in the financial statements;– Key judgements and sources of estimation uncertainty;– Events occurring after the balance sheet date (the Council stated that there were none); and– Group Movement in Reserves Statement.– 1 April 2009 transitional IFRS group balance sheet.■ Some disclosure notes were incomplete, or not fully compliant with the CIPFA Code of Practice, for example:<ul style="list-style-type: none">– The explanatory foreword to the financial statements did not offer a commentary on the Council's financial position, the major influences affecting the Council's income and expenditure and cash flow, or an understandable guide to the most significant matters reported in the financial statements;

Issue	Findings and recommendations
	<ul style="list-style-type: none"> – Related party transactions note did not disclose income and expenditure, or debtor and creditor balances, with related parties in all cases; – Financial instruments notes 15 and 50 did not include all instruments, such as debtors, creditors and cash. Notes also required more information regarding assumptions applied in valuing financial instruments; and – Insufficient commentary was included regarding the transition from UK GAAP accounting to International Financial Reporting Standards. ■ I found that the following disclosures were also incomplete: <ul style="list-style-type: none"> – The Council did not compile a note on contractual commitments for the acquisition of property, plant and equipment; – Disclosures regarding the valuation of property, plant and equipment were incomplete; – Disclosure on provisions did not include information regarding expected timing of outflows, and any uncertainties connected to this; – Discount rate used on IAS19 liability was not disclosed; and – Group accounts disclosures were not complete, including details on how group financial statements were compiled, accounting policy harmonisation, and consideration of other group entities. ■ I also found the following more minor disclosure errors: <ul style="list-style-type: none"> – No disclosure of the nature and purpose of reserves; – de minimis level for accounting for property, plant and equipment was not disclosed in accounting policies; – no reconciliation was included between the total of future minimum lease payments on finance leased assets at the Balance Sheet date, and their present value; – no details were included regarding the revaluation of investment property. ■ The general presentation of the financial statements was poor, including the above omissions; and ■ I found various minor presentation amendments including additions, agreement to supporting notes, note references, typographical errors, correct dates and years.

Recommendation

R11 Ensure financial statements comply with requirements of IFRS and Cipfa Code

R12 Perform a self review of compliance against disclosure requirements using disclosure checklists (available from Cipfa and Audit Commission)

Financial statements

Significant difficulties encountered during the audit

31 I have reported the significant difficulties encountered during the audit in the sections above.

Significant matters that were discussed or subject to correspondence with management

32 There have been no other matters I discussed with or that were subject to correspondence with management.

Letter of representation

33 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

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

34 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

35 I have substantially completed my work on value for money. I confirm that in the majority of areas reviewed the Council has maintained adequate arrangements to secure economy, efficiency and effectiveness in your use of resources. However, I will need to assess the impact of the Council's financial reporting arrangements once the audit on the financial statements has been substantially completed, before I decide on the nature of the vfm conclusion.

Value for money criteria and our findings

Criterion	Adequate arrangements	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	TBA	The Council understands the financial challenges and risks it faces. Executives and non-executives provide constructive scrutiny on financial matters and there is an effective Audit Committee in place. The Council has updated its medium term financial strategy to reflect the savings required over the next four years. The Executive receive regular finance reports that provide a clear link between budget, in-year forecasts and the year-end forecast. I will need to review the impact of the audit on the Council's financial reporting arrangements once this has been substantially completed, before I decide on the nature of the vfm conclusion.

Criterion	Adequate arrangements	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>TBA</p>	<p>The Council has put proper arrangements in place to challenge how it secures economy, efficiency and effectiveness.</p> <p>The One Council Programme covers the four year period 2010 - 2014. The main objective of the programme is to achieve budget savings of up to £94 million by 2014/15 while:</p> <ul style="list-style-type: none"> ■ raising performance; ■ maximising efficiency; ■ creating a council that looks and feels like one cohesive organisation; ■ creating new flexible ways of working; ■ stopping lower priority activities; ■ generating increased income; ■ improving procurement and property management; and ■ creating a council fit to deliver the members' corporate strategy. <p>The Council must ensure that sufficient capacity is provided to deliver the programme effectively. Planned savings for 2010/11 were reduced from £14.1 million to around £7 million. This was due to delays in delivering some projects that had been planned for 2010/11. The savings from the delayed projects have been rolled forward into 2011/12 budget.</p> <p>Savings of £25.9 million are required to be delivered in 2011/12, almost double those originally planned and equivalent to almost half of the total One Council savings. Many projects to be delivered in 2011/12 are now in the implementation phase. Accurately monitoring savings from these projects will be important if budget savings are to be achieved as planned.</p>

Report by exception

36 The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

37 There are no matters to report.

Appendix 1 Example audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of London Borough of xxxx for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the

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 accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of xxxx's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; 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 accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of xxxx 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 auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, 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 accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

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.

Auditor's responsibilities

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.

Basis of conclusion

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 2010, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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 Authority 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 2010, I am satisfied that, in all significant respects, London Borough of xxxx put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group accounts of London Borough of xxxx and London Borough of xxxx Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London SW1P 4HQ

[Date]

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Exceptional item (net cost of services) Cr Exceptional item (other operating expenditure)	Exceptional cost, arising from downward revaluation of HRA properties, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with Cipfa Code.	240,153	240,153		
Dr Exceptional item (other operating expenditure) Cr Exceptional item (net cost of services)	Exceptional cost, arising from change in CPI to RPI in calculating IAS19 pension liability, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with Cipfa Code.	117,950	117,950		

		Comprehensive income and expenditure statement		Balance sheet	
Dr Deposits	School cash and cash equivalents			11,141	
Cr Overdrafts	incorrectly allocated to current bank				6,271
Cr Current bank accounts	balances. Reallocate short term				4,871
	deposits held and overdrawn				
	balances				
Dr Land and buildings	Error made entering Copland	6,000		12,685	6,685
Cr Surplus or deficit on revaluation	valuation. Reversal of incorrect				
of Property, Plant and Equipment	downward valuation entries made				
assets					
Cr Revaluation reserve					
Dr Provisions	Reallocate accrued leave pay as an			9,589	9,589
Cr Accrued leave pay	accrual				
Dr Creditors	DSG grant income treated as			9,261	9,261
Cr Deferred income	deferred income incorrectly. This				
	related to 2011/12 and was received				
	post 31 March 2011				
Dr HRA amortised and payment	Amount incorrect included in HRA	4,932	4,932		
discount (HRA MIHRAS)	statement. To be reallocated to				
Cr HRA amortised and payment	accounting and funding basis				
discount (HRA I&E)					
Dr Creditors	Cash received for housing benefit			1,967	1,967
Cr HB overpayments	overpayments incorrectly accounted				
	for as income in advance.				
	Reallocated to debtors				
Dr Expenditure	Reverse settlement costs treated as	691			691
Cr Non current assets	non current assets				
	Reallocate liability for onerous lease				

		Comprehensive income and expenditure statement		Balance sheet	
Dr Finance lease liability	costs built into new finance leases			691	691
Cr Provision (onerous lease)					
Dr Loss on disposal of non current assets	Reverse profitable disposal transaction which was double counted	676	676	676	676
Cr Difference in accounting and funding basis (MIRS)					
Dr Capital adjustment account					
Cr Non current assets					
Dr Exceptional item	Gain on investment incorrectly treated as exceptional item. Reallocate to investment income	501	501		
Cr Investment income					
Dr Teachers payroll costs	Correct understatement of year end teachers pension liability	257			257
Cr Teachers pension accrual					
Dr Payments to capital receipts pool	Correct estimate made for capital receipts payment, based on final grant return (CFB06)	121	121	121	121
Cr Difference in accounting and funding basis (MIRS)					
Dr Capital receipts reserve					
Cr CFB06 grant creditor					
Dr Impairment	Impair capital costs related to Kingsbury Childrens Centre as this will not be completed			116	116
Cr Non current asset					
Net effect of adjustments		£5,052k increase in reported surplus		£5,052k increase in net assets	

Appendix 3 Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Debtors Cr Income	Accounting for uncertainty of HB overpayment debtors balance as various reports run at different dates to year end.		657	657	
Dr Expenditure Cr Creditors	Accounting for an uncertainty with a creditor balance as the detailed analysis is greater than the general ledger balance	278			278
Dr Other long term liabilities	Entry to remove mortgage debtors where limited evidence available to support			178	178

		Comprehensive income and expenditure statement	Balance sheet
Cr Debtors	recoverability and associated deferred income		
Net impact		379k increase in reported surplus	

Appendix 4 Draft letter of representation

To: Andrea White

District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

London Borough of Brent – Audit for the year ended 31 March 2011

We confirm to the best of our 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 2011 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the appendix [to be added by Council].

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and relevant information, including minutes of all Members meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or
- deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our 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; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

We confirm that this letter has been discussed and agreed by the Audit Committee on dd month 2011

Signed

Name: Gareth Daniel

Position: Chief Executive

Signed

Name: Clive Heaphy

Position: Director of Finance

Signed

Name: Stephen Woods

Position: Chair of the Audit Committee

Date

Appendix 5 Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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.

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

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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

