

Annual Audit Letter

London Borough of Brent

Audit 2008/09

December 2009



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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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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Audit opinion

- 1 I gave an unqualified audit opinion on the Council's financial statements and on the pension fund financial statements on 29 September 2009.
 - 2 I gave an unqualified opinion on the Pension Fund annual report on 26 November 2009.
 - 3 I cannot formally conclude and close the 2008/09 audit due to outstanding legal proceedings. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.
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Financial Statements

- 4 The draft financial statements were submitted for audit on 30 June 2009 in accordance with the agreed timetable. These financial statements were complete but contained errors which have been amended in the final version.
 - 5 My audit identified one material change to the main financial statements. This related to the accounting treatment of a downward revaluation of fixed assets.
 - 6 The Pension Fund accounts and notes submitted for audit were complete. A good audit trail was provided to support the financial statements. There were some minor disclosure errors identified during the course of the audit which were subsequently amended by management.
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Value for money

- 7 I am satisfied that the Council, having regard to the criteria specified by the Audit Commission, have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009. I issued an unqualified value for money conclusion on 30 September 2009.

Local risk work

- 8 In addition to my work on use of resources and to support the value for money conclusion, I also commenced a review of Health Inequalities. This is being performed in two stages. The first stage of my review found that there was a clear strategic commitment from both the PCT and Brent Council to tackle health inequalities. Stage 2 of the review is currently underway.

Table 1 Audit fees

	Actual £	Proposed £	Variance £
Audit (excluding Pension Fund)	476,500	441,500	35,000
Pension Fund	38,000	38,000	0
Total audit fees	515,500	479,500	35,000

- 9 Additional audit fee has been charged due to additional work being undertaken on disclosure in respect of Icelandic banks, debt restructure and devolved nature of the financial ledger system.
- 10 In addition to the main audit fee, I am in the process of auditing eleven government grants and returns and the estimated fee for these is £85,000 (2007/08 £149,000).

Actions

- 11 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 12 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

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

Significant issues arising from the audit

- 13** The financial statements presented for audit were generally of a good standard requiring few amendments. There was one significant issue arising from the audit of the Council's financial statements. During 2008/09 the Council obtained a valuation of certain leisure and educational land and building operational assets as part of its five-year rolling programme. The valuation reported an upward valuation of some assets by £34.43 million and a downward valuation of some assets by £19.97 million. The Council's treatment in the draft financial statements was not correct as the downward revaluation should have been recognised through the Income and Expenditure account. The impact of this amendment is to increase the revaluation reserve by £19.97 million with a corresponding adjustment to the Statement of Total Recognised Gains and Losses. This was reported in our Annual Governance Report to the Audit Committee on 24 September 2009.
- 14** My audit of the Pension Fund identified one material error which the Council adjusted. This related to the valuation of a private equity investment. This was reported in detail in our Pension Fund Annual Governance Report to the Audit Committee on 24 September 2009.

Recommendation

R1 Account for fixed asset valuations in accordance with the Local Government Statement of Recommended Practice.

Material weaknesses in internal control

- 15** The Council reported weakness in its internal control arrangements for foundation schools. These matters were set out in the Council's Annual Governance Statement. I did not identify any additional significant weaknesses in your internal control arrangements.

Accounting practice and financial reporting

- 16 I considered the qualitative aspects of your financial reporting. The quality of the working papers supporting the main financial statements improved this year. The audit process is protracted by the Council operating a number of different ledger systems by departments and the devolved nature of finance. We recognise that the Council has a phased plan for the introduction of a single accounting system, scheduled for completion by March 2010, which should lead to more efficient financial reporting arrangements.
- 17 The balance on the Council's Collection Fund account reserve has a deficit of £1.5 million. This balance is being recovered as part of the 2009/10 budget. The Council has a statutory duty to review collections rates for Council Tax annually, as part of the budget process, and agree that any estimated deficit is recovered in the following year.

International Financial Reporting Standards (IFRS)

- 18 The Council is required to prepare their financial statements under IFRS from 2010/11. The main impact of this is likely to be on the accounting treatment of fixed assets, leases, Private Finance Initiatives (PFI) and employee benefits. Some aspects of IFRSs relating to PFI, need to be implemented from 2009/10.
- 19 The introduction of IFRS is challenging. The aspects relating to the Council's four PFI schemes are complex as the schemes need to have their accounting treatment revised retrospectively from the date that the original agreements were signed. Officers have produced a project plan. This will be reported to Members on the impact of the introduction of IFRS at the beginning of 2010. The Council will need to make sure that appropriate resources are available in order that the financial statements are prepared accurately, meeting statutory deadlines and in line with IFRS.

Recommendation
R2 Report to Members on matters relating to the introduction of IFRS and to ensure that appropriate resources are made available to meet the deadlines.

Value for money and use of resources

I consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement. I also assess whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 20 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 21 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work. The Council's use of resources theme scores, and underlying KLOE scores are shown in Table 2 below.

Table 2 Use of resources theme scores

Use of resources theme and KLOE	Scored judgement
Managing finances	3
• Financial planning	3
• Understanding costs and achieving efficiencies	3
• Financial reporting	2
Governing the business	2
• Commissioning and procurement	2
• Data quality and use of information	2
• Good governance	2
• Risk management and internal control	2
Managing resources	2
• Use of natural resources	2
• Strategic asset management	3

Managing finances

- 22** The Council clearly integrates its financial planning with strategic and service planning on a long term basis. Medium term financial plans are approved each year alongside the budget in addition the Council produces a 30-year plan. The Council has a good record of delivering on its annual budget plans. Reserves are maintained at the level determined by Members.
- 23** The Council has adequate Treasury management arrangements in place. The Council's treasury management policy complied with the CIPFA Code of Practice on Treasury Management and investments were made in accordance with its investment management strategy. The Council took swift action to review its Treasury Management Strategy in light of the bank collapse and subsequently moved to a more risk adverse strategy in October 2008. The Council has taken a number of actions to the issues reported in its Treasury Management Strategy review eg reduction of risk profile, review of capacity and training, updates to Members, and responded to the Audit Commission Risk and Reward report. The Council's expected return of the original investment in Icelandic banks is currently estimated as a minimum of 87 per cent (this is subject to priority creditor status being retained for deposits in Glitnir).
- 24** Benchmarking has been used to identify high cost areas. Overall costs compare well with other services and the Council has taken targeted actions to reduce costs in high spend areas with some successes eg transformation programmes in adult and children services. However there remain areas such as waste services where costs are comparatively high. The Council has a clear efficiency programme in place and has continued to exceed its efficiency targets, despite increased demand for services. Cost and improved outcomes are clear factors in decision making with recognition of whole life costs and the wider impact on the community. Service reviews are used well to review the efficiency and effectiveness of services. However, further work is needed to demonstrate how each service review results in more efficient services and better outcomes for the recipients of services. The Council planned and secured efficiency savings of £9.6 million in 2008/09.
- 25** The Council has a robust budget monitoring process in place which delivers timely monitoring reports for all departments. Key variances are identified quickly, enabling timely intervention and forward planning. However, there is further scope for more flexible reporting during the year and for information to be accessible at any time. The financial statements were prepared in line with the timetable and there was one material error identified in the main financial statements. There was a material error in a note disclosure to the Pension fund financial statements which were subsequently adjusted by the Council. The Council has a detailed closedown plan, but it does not currently facilitate an early and efficient accounts closure. The plan needs to better consider the different systems resulting from the current, devolved structure.

Governing the business

- 26** Overall the council has a clear vision of what it wants to achieve based on comprehensive needs analysis. The Council does not currently have an overall strategic approach to commissioning and there is variability in procurement processes and practices across the Council, particularly in relation to market management and involvement of the community and service users. There are however, some examples of effective joint procurement achieving value for money. Examples include the use of e-procurement resulting in reduced IT costs, joint procurement of IA, and the Council's energy framework agreement.
- 27** The Council has a robust framework to oversee and improve the quality of the data upon which it relies and an agreed data quality strategy that clearly sets out roles and responsibilities. The Council agreed its Data Quality Strategy in 2007 and subsequently widened it to include partnerships. The Council relies on data from a number of external organisations and partnerships - the procedures to ensure the completeness, timeliness and verification of data from these parties can be improved.
- 28** The Council has officer/Member protocols in place which sets out expectations regarding working relationships which are identified as working well. The Council promotes its ethical framework and culture throughout the organisation, with management competencies outlining the role of managers in delivering on the ethical agenda. The Council actively manages complaints, an annual review of complaints takes place and lessons learnt are built into service improvements. Member conduct is reported to the Standards Committee. There were two investigations in 2008/09 which is lower than the national average. All Members allowances and expenses are published promptly after the year end.
- 29** The Council has a risk management strategy in place. Council and Executive reports consider risks as part of their decision making role on corporate policies, including budget setting, major policy decisions, and major projects. Risks and responses are reported to executive on a regular basis. In spite of the above embedded process for risk management the Council had one failure in governance arrangements at a Foundation School. The Council acted swiftly and it is the subject of an ongoing investigation by the Council. The Council has subsequently reviewed and strengthened governance arrangements at all Foundation Schools.
- 30** The Council has a clear anti-fraud and corruption framework in place and the annual anti fraud internal audit programme looks proactively at potential fraud risk areas. There is a well resourced investigations team in place who have undertaken a number of investigations as well as running 70 seminars for all Members and staff to raise fraud awareness. The Council has appropriate standing orders, financial regulations and internal controls in place. The operation of financial systems could be strengthened as the number of fundamental systems receiving limited assurance opinions from internal audit increased in the year. This includes strengthening control account reconciliations.

Managing resources

- 31** The Council has a strong commitment to reducing its impact on the environment, supported by the sustainability action plan. The Council has systems and processes in place to manage energy, water, waste and biodiversity. This includes the use of solar panels, low energy lighting, building energy management systems, thermal insulation, reduction in water used by parks (from 30,000m³ pa to 20,000m³ pa), office recycling, and biodiversity planting schemes. The Council has worked with its ALMO on a programme of works in social housing that has increased their average SAP rating from 47 to 66 as a result of fitting energy efficient condensing boilers, double glazing and roof insulation. The Council performs sustainability impact appraisals for all major projects - this required the new Civic Centre to be designed to achieve an environmental BREEAM rating of at least 'excellent'. Schemes at the new Wembley Primary School, Willesden Leisure Centre and the recently agreed housing PFI all comply with sustainability guidance built into the Council's supplementary planning guidance. The Council is revising its carbon reduction strategy in consultation with the Carbon Trust. The Council should ensure that there is reliable information available to monitor its performance and reduce consumption of natural resources in line with the targets it has set itself. This should be achieved across all parts of the organisation, including schools. In order to achieve this, the Council will need to work effectively with partners in developing, implementing and monitoring plans. The Council should also communicate the performance against planned targets to the public, stakeholders and staff and engage with them.
- 32** The Council's capital strategy and asset management plan guides effectively the Council's asset management. Strategic asset management is leading to good outcomes in terms of using assets to meet corporate priorities. Whilst the overarching strategy for assets relates to the development of a new Civic centre, the Council has used its corporate leadership on asset management to evaluate whole life costs of assets and to develop multiple use of assets to better meet the needs of the community whilst achieving VFM. Work on joint use of assets with partners and voluntary sector groups is well progressed.

Recommendations

- R3** Expand the use of comparative information about costs and performance, in particular make greater usage of benchmarking.
- R4** Develop a strategic approach to commissioning and procurement and identify how commissioning and procurement will help to improve the delivery of and better outcomes for those who use local services.
- R5** Implement the revised carbon reduction strategy to reduce the Council's environmental impact and consumption of natural resources across all areas of the organisation in line with targets that it has set itself.

Value for money and use of resources

VFM conclusion

- 33** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 34** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
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Local risk work

- 35** In addition to my work on use of resources and to support the value for money conclusion, I also commenced a review of Health Inequalities in the area. This is being performed in two stages.
- 36** The first stage of my review found that there was a clear strategic commitment from both the PCT and Brent Council to tackle health inequalities. An interim report setting out our initial findings was issued in June 2009. Stage 2 of the review is currently underway.
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Government grants

- 37** The Council have submitted 11 claims and returns that require auditing in 2008/09. I have currently completed the audit of 10 of the claims. While there are no major issues to report, of these 10 claims, 4 required a qualification letter and 8 required minor amendments from the original claims submitted.
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Current financial issues

- 38** The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 39** The in year financial position for the first three months showed that General Fund services could overspend by approximately £4.9 million. The main cost pressures are from children's placements (£2 million), children's disability budget (£0.6 million), parking income (£1 million). However, action has been taken to control this, which has seen the latest forecast return to a breakeven position. Any net overspending at 31 March 2010 would impact adversely on the overall financial position, and may require additional budget provision.
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40 The Council is undertaking an ambitious change programme set out in its new Improvement and Efficiency Strategy. The change programme is structured around three themes.

- Making the 'One Council' approach a reality
 - Development of the organisational infrastructure and establishment of a Business Transformation department to integrate critical support functions.
- Raising performance and maximising efficiency
 - Service reviews run by cross-council teams to develop and implement more customer-focused and effective service delivery models.
- Delivering on major projects
 - Delivering large capital schemes notably the Civic Centre, the expansion programme for schools, regeneration of Wembley and South Kilburn and the North Circular Road project.

41 With the current economic outlook likely to result in tough financial settlements in the coming years and the demand for some services likely to increase, Council finances need to be kept under close review, both in the current year and over its medium term financial strategy.

Recommendation

R6 Monitor the financial position closely and take appropriate action to meet expenditure constraints.

Closing remarks

- 42 I have discussed and agreed this letter with the Chief Executive, the Director of Policy and Regeneration and the Director of Finance and Corporate Resources. I will present this letter at the Executive on 18 January 2009 and will provide copies to all Members.
- 43 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3 **Reports issued**

Report	Date issued
Audit and inspection plan	May 2008
Opinion plan	March 2009
Pension opinion plan	March 2009
Health Inequalities report	June 2009
Use of Resources	November 2009 (draft)
Audit opinion and value for money conclusion	September 2009
Opinion memorandum	November 2009 (draft)

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- 44 The Council has taken a positive and constructive approach to our audit. I wish to thank Members and staff for their support and co-operation during the audit.

Andrea White
District Auditor
December 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Account for fixed asset valuations in accordance with the LG SORP.	3	Deputy Director of Finance & Corporate Resources	Yes	Our review of the closedown process will include a focus on fixed assets. We have commenced our planning for the 2009/10 accounts, as part of the implementation of IFRS, and will continue to liaise with the Audit Commission to ensure our systems and processes comply with the new arrangements.	31/03/10
6	R2 Report to Members on matters relating to the introduction of IFRS and to ensure that appropriate resources are made available to meet the deadlines.	3	Deputy Director of Finance & Corporate Resources	Yes	Project plan will be updated once CIPFA guidance finalised and reported to Audit Committee.	31/03/10
10	R3 Expand the use of comparative information about costs and performance, in particular make greater usage of benchmarking.	3	CMT and project leads	Yes	All projects in the improvement and efficiency action plan require benchmarking of current service provision.	31/03/11
10	R4 Develop a strategic approach to commissioning and procurement which will help to improve the delivery of services and provide better outcomes for those who use local services.	3	Head of Procurement	Yes	Procurement gold project will address this issue.	31/03/11
10	R5 Implement the revised carbon reduction strategy to reduce the Council's environmental impact and consumption of natural resources across all areas of the organisation in line with targets that it has set itself.	3	Director of Environment & Culture	Yes	Projects to deliver on targets agreed at Executive on 19 October 2009.	31/12/11

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R6 Monitor the financial position closely and take appropriate action to meet expenditure constraints.	3	Director of Finance and Corporate Resources	Yes	The position will be monitored closely through departmental monitoring, reports to SFG and CMT and Performance and Finance reports to members. Actions are still being implemented to deal with budgetary pressures that arise.	31/03/10

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.

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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
