

Annual Governance Report

Brentwood Borough Council

Audit 2008/09

October 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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Members of the Audit Committee

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Chief Executive and Director of Finance on xx October 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report (pages 8 to 17);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2);
- take note of the VFM Conclusion and Use of Resources score (Appendix 3); and
- agree your response to the proposed action plan (Appendix 3).

Yours faithfully

Paul King
District Auditor
October 2009

Key messages

This report summarises the findings from my 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

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Audit opinion

- 1 I am issuing a qualified disclaimer opinion on the 2008/09 financial statements for Brentwood Borough Council. This means I am unable to express an opinion, due to an inability to obtain sufficient evidence to satisfy myself that the financial statements as a whole are not misleading or incomplete. Appendix 1 contains a copy of my draft audit report.
- 2 I have therefore been unable to complete my audit of the 2008/09 financial statements.

Financial statements

- 3 The 2008/09 Statement of Accounts was approved by the Audit Committee on 12 August 2009, some six weeks later than the statutory deadline of 30 June 2009. We started our audit of the financial statements when the accounts were received but progress has been slow due to the number of issues identified during the course of our work and the poor standard of the financial statements and supporting working papers produced for audit.
- 4 We assessed the progress and overall position of the audit in late September 2009. I agreed with officers that, without significant further work on the part of the Council, there was no realistic prospect of my gaining sufficient evidence to support an unqualified audit opinion, due to the lack of evidence to support key areas of the accounts. I have determined that I should issue a disclaimer audit opinion. For this

Key messages

reason the Council has decided that it will not make any amendments to the financial statements approved by the Audit Committee on 12 August 2009.

- 5 Issuing a disclaimer opinion also means that the Council can concentrate on addressing the issues identified during the 2008/09 audit and work towards preparing a complete and fully supported set of financial statements for 2009/10. This also ensures a more effective use of Council and audit staff time, and avoids further additional audit costs.

Recommendation

- R1** Acquire the necessary skills and capacity to address the significant issues noted in our Annual Governance Report in a timeframe that will ensure the 2009/10 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers.

Material Weaknesses in Internal Control

- 6 Our audit work found that there are significant weaknesses in key areas of the Council's internal controls, in particular in respect of bank reconciliations, debtor and creditor control account reconciliations and over the fixed asset register.

Use of resources

- 7 The Council has been assessed at a score of '1' in its Use of Resources. Additionally, in terms of the impact on the value for money conclusion I concluded that the Council did not meet the minimum standards during 2008/09 for four of the eight criteria assessed. As a result of this I have concluded that, overall, the Council does not provide value for money in its use of resources for the year ended 31 March 2009 and I intend to issue an adverse qualified conclusion. Appendix 1 contains the wording of my draft report.

Audit Fees

- 8 I reported in my supplementary fee letter of 25 February 2009 the reasons for an increase in the original proposed audit fee. This increase was based on the Council undertaking taking actions to address the recommendations raised in the 2007/08 Annual Governance Report issued by the previous external auditors, PKF, and our 2008/09 Interim Audit Report. As the Council has not produced an auditable set of financial statements these actions have clearly not been implemented and we have had to undertake additional work on the audit which has resulted in a further additional audit fee.

Table 1 Audit fee for 2008/09

The final fee for 2008/09 is in line with that reported in the supplementary fee letter

Audit area	Planned fee 2008/09	Revised fee 2008/09	Final fee 2008/09
Financial statements	107,985	115,985	TBC*
Use of resources and data quality (undertaken by PKF)	31,000	31,000	31,000
Total audit fee	138,985	146,985	TBC*
Total inspection fee	6,565	6,565	6,565
Total audit and inspection fee	145,550	153,550	TBC*

- 9 * Additional fees are to be charged for our audit of the financial statements and other areas due to additional work required. The amount to be charged will be quantified following the conclusion of our work.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.

10 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 17);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2);
- take note of the VFM Conclusion and Use of Resources score (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

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

- 11 I have been unable to complete my audit of the 2008/09 financial statements and plan to issue an audit report including a qualified disclaimer opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 12 On the basis of our work to date, I currently propose to issue a disclaimer audit opinion. There are a number of areas where insufficient evidence has been made available to enable us to conclude whether certain accounting entries are fairly stated. Additionally, there are a number of areas where we are unable to agree the Council's accounting treatment. These are also set out in the detail below.

Limitation of scope due to the lack of appropriate audit evidence

Tangible Fixed Assets

- 13 The Council has not provided sufficient appropriate evidence to support the following balances within Tangible Fixed Assets (Note 11):
 - Disposals of Council Dwellings (£1.370 million);
 - Depreciation of Council Dwellings (£6.204 million) and of Vehicles, Plant and Equipment (£259k);
 - Impairment of Council Dwellings (£62.406 million)
 - Vehicles, plant & equipment (VPE) in the accounts is £368k but is £241k on the detailed asset register. An explanation for the difference has not been provided.
- 14 As a consequence I am therefore unable to satisfy myself regarding the closing Net Book Values (NBV) for Council Dwellings (£405.752 million) and for Vehicles, Plant and Equipment (£368k). In addition the Housing Revenue Account (HRA) asset register shows an asset value of £372 million which differs from the closing NBV for Council Dwellings of £405.752 million).
- 15 We have also received no evidence to confirm that the Council has valued Council Dwellings on the basis of 'Existing Use Social Housing' as required by the Statement of Recommended Practice (SORP).
- 16 The Council has also not provided sufficient appropriate evidence to supports its decision to capitalise £372k of expenditure across Council Dwellings, Other Land and Buildings, and Vehicles, Plant & Equipment.

Financial statements

Recommendation

- R2** Maintain an up to date asset register which lists all Council dwellings and Vehicles, Plant & Equipment.
- R3** Value all Council dwellings at Existing Use Value (Social Housing).
- R4** Ensure all assets are depreciated correctly and assets have been subject to a full and proper impairment review.
- R5** Identify all assets that have been subject to impairment and maintain proper records.

Debtors and Creditors

- 17** The Council has not provided sufficient appropriate evidence to support £5.7m of a total debtors balance of £6.9 million and the full £6.9m of creditors in the Balance Sheet. The Council does not maintain an aged debtor listing, so it was not possible to determine whether the provision for doubtful debts of £848k is adequate.

Recommendation

- R6** Provide transaction listings for all year-end debtors and creditors.
- R7** Record the age of all debtors and use this information to undertake an aged debt analysis. Ensure that the provision for doubtful debts accurately reflects your calculation of debtor age.

Cash and Bank

- 18** The Council has not provided sufficient appropriate evidence to support the balance of £769k (overdrawn) in the Balance Sheet, as it did not provide a complete and accurate bank reconciliation.

Recommendation

- R8** Complete the work on the year end bank reconciliation to clarify the cash position

Deferred Income

- 19** The Council has not provided sufficient appropriate evidence to support the deferred income balance of £214k.

Revaluation Reserve

- 20** The Council has not provided sufficient appropriate evidence to support the revaluation reserve balance of £9.6 million in the Balance Sheet.

Earmarked Reserves

- 21** The Council has not provided sufficient appropriate evidence to support the following receipts and payments into and from earmarked reserves (Note 30):
- Receipts - Piper Life Line (£111k); Environmental Seminars (£9k).

- Payments - Piper Life Line (£62k); Environmental Seminars (£14k); and Carry forward of budgets (£34k).

Usable Capital Receipts Reserve

- 22 The Council has not provided sufficient appropriate evidence to support the balance of £1.415 million for 'Amounts Applied – Other' within the Useable Capital Receipts Reserve (Note 28).

Recommendation

R9 Ensure all balance sheet items are fully supported by adequate and sufficient evidence.

Capital Commitments

- 23 The Council has not provided sufficient appropriate evidence to support the Merrymeade House commitment of £873k (Note 11 (v)).

Recommendation

R10 Retain all documentation relating to capital commitments.

Income and Expenditure Statement

- 24 The Council has not provided sufficient appropriate evidence to support £787k of income and £636k of expenditure within the Income and Expenditure Statement.
- 25 Our testing of income and expenditure transactions also showed that £125k was transferred from the Assize House Trust to fund revenue expenditure by the Council. No Trust documentation (deed or contracts) are kept by the Council and no separate accounting records are kept for the Trust. Therefore we could not establish whether revenue expenditure funded by the Trust is in accordance with the Trust objectives.

Government Grants

- 26 The Council has not provided sufficient appropriate evidence to support the £174k Implementing Electronic Government grant and the £185k recycling grant. No details were provided of the assets purchased with the grant and the depreciation charged, therefore it was not possible to ensure that there were credits to the revenue account from the government grant deferred account as required by the SORP.

Interest Payable

- 27 The Council has not provided sufficient appropriate evidence to support the figure of £514k interest payable in the Income and Expenditure Statement.

Recommendation

R11 Ensure that key entries in the Income and Expenditure Statement are fully supported by adequate and sufficient evidence.

Statement of Movement on the General Fund Balance

Financial statements

- 28 The Council has not provided sufficient appropriate evidence to support the Minimum Revenue Provision of £345k and the £31.611 million for depreciation and impairment of HRA assets included in the Statement of Movement on the General Fund Balance.

Housing Revenue Account

- 29 The Council has not provided sufficient appropriate evidence to support income of £10.650 million and expenditure of £46.708 million in the HRA.

Collection Fund

- 30 The Council has not provided sufficient appropriate evidence to support the income from Business Ratepayers (£27.341 million) and from Council Tax (£42.050 million) in the Collection Fund.
- 31 The Council has also not provided sufficient appropriate evidence to support the basis of the distribution of the previous year's surplus so we could not conclude that this was carried out correctly in accordance with paragraph 11(3) of the regulations (SI 2428/1992).

Statement of Total Recognised Gains and Losses

- 32 The Council has not provided sufficient appropriate evidence to support the 'Other (Gains)/Losses' figure of £89k. This is a balancing figure to enable the Statement to balance.

Recommendation

R12 Ensure that the Statement of Movement on the General Fund Balance, the Housing Revenue Account, the Collection Fund and the Statement of Total Recognised Gains and Losses are fully supported by adequate and sufficient audit evidence.

Assize House Trust Fund

- 33 The Council has not provided sufficient appropriate evidence to support the deduction of £1.307 million from the Temporary Investments balance (Note 17) and the same deduction from creditors (Note 21). The figure represents cash held in respect of the Assize House Trust Fund, which should not be included within the Council's accounts.

Recommendation

R13 Ensure that the Assize House Trust Fund balances are fully supported by adequate and sufficient evidence and that they are properly excluded from the Council's Statement of Accounts.

Agreement to the ledger

- 34 The Council has not provided sufficient appropriate evidence to support a number of adjustments from the entries in the General Ledger to entries in the Statement of Accounts. Without this evidence we are unable to gain assurance that these adjustments were adequately supported. The most significant of these adjustments are set out below.

Income and Expenditure Statement and Balance Sheet

Account Entry	Accounts	Ledger	Variance
Cultural and related services (expenditure)	£4,828k	£2,822k	£2,006k
Cultural and related services (Income)	£3,050k	£928k	£2,122k
Land and buildings	£41,244k	£41,717k	£473k
Infrastructure assets	£368k	£935k	£567k
Vehicles, plant and equipment	£870k	£685k	£185k
Investment properties	£6,149k	£5,801k	£348k
Temporary investments	£5,007k	£6,314k	£1,307k
Debtors	£6,125k	£5,329k	£796k
Creditors	£6,912k	£7,424k	£330k

HRA

Account Entry	Accounts	Ledger	Variance
Special services	£993k	£878k	£115k
Depreciation	£24,529k	Not found on ledger	

Recommendation

R14 Ensure that the Statement of Accounts is based on the General Ledger with adjustments and other movements fully explained and evidenced.

Journals

- 35** As part of our audit we planned to test all material year-end journals. The Council has not provided sufficient appropriate evidence to support £49.7 million of journal entries.

Recommendation

R15 Ensure that all journals have sufficient and adequate documentation to support the movements. These journals should be reviewed by a second officer to ensure that they are accurate and correct. Preparation and review should be clearly evidenced.

Disagreement with accounting treatment

Depreciation on non-operational investment properties

- 36** Depreciation of £81k has been charged in year on non-operational investment properties, which is contrary to the requirements of the SORP.

Capital Adjustment Account

- 37** The SORP requires that the Capital Adjustment Account (CAA) be debited with the value of impairments, however the Council has credited the value of impairments (£68 million in total) to the CAA.

Leases

- 38** Lease payments in respect of waste collection vehicles totalling £327k have been charged to the Income & Expenditure Account, reflecting their treatment as operating leases. From our review of the lease agreements, our view is that they should be treated as finance leases. If the vehicles were accounted for as finance leases the accounts would need to be amended to show the value of the vehicles as fixed assets in the balance sheet. We estimate that the NBV of the vehicles would be approximately £1.4 million.

Interest receivable

- 39** Total interest receivable for the year was calculated using base rates applied to average investment balances rather than actual interest rates and investments. The interest receivable balance of £664k has been calculated incorrectly.

Cash Flow Statement

- 40** The decrease in cash was initially calculated incorrectly as £948k as cash inflows have been added to outflows instead of being deducted. Neither the incorrect balance of £948k or the corrected balance of £720k agree with the decrease in cash on the balance sheet of £769k. Testing on the cash flow statement also showed that the movement in liquid resources figure includes the movement in accrued interest in the year, which has already been included, correctly, in the Servicing of Finance section. The cash flow has therefore effectively been included twice. With this adjustment the decrease in cash is actually £849k which still does not agree with the decrease in cash on the balance sheet. The Revenue Activities and Capital Activities sections of the cashflow statement included amounts that disagreed with the amounts disclosed elsewhere in the accounts.

Recommendation

R16 Ensure that the appropriate accounting treatment is applied to the depreciation of non-operational investment properties; the Capital Adjustment Account, Interest Receivable and the Cash Flow Statement.

R17 Review the accounting treatment of leased assets to ensure that they are correctly classified as either operating leases or finance leases, and that the consequent correct accounting treatment is applied.

Material weaknesses in internal control**Review of Fixed Asset Register**

- 41** Reliance is placed on historical records on the Fixed Asset Register. There is no regular review of other records (particularly the housing rents system) to ensure that all assets are identified. This has resulted in omissions from the Fixed Asset Register and means that we do not have assurance over the completeness of the fixed assets balance on the balance sheet.

Recommendation

R18 Undertake regular reconciliations of the Fixed Asset Register with other systems to ensure that the Register is accurate, complete and up to date.

Bank Account and Control Account Reconciliations

- 42** The Council does not perform regular bank reconciliations and is dependent on a year-end reconciliation. This weakness means that the Council cannot accurately monitor its cash position and increases the risk of errors in cash forecasting.
- 43** In addition, regular reconciliations of debtor and creditor control accounts are not being performed. This presents a significant risk of the Council's debtor and creditor balances being misstated.

Recommendation

R19 Undertake monthly bank reconciliations during the year. These reconciliations should be reviewed by a second officer to ensure that they are accurate and complete. Preparation and review should be clearly evidenced.

R20 Undertake regular debtor and creditor control account reconciliations. These reconciliations should be reviewed by a second officer to ensure that they are accurate and complete. Preparation and review should be clearly evidenced.

Annual Governance Statement

- 44** As part of our audit we review whether the Council's Annual Governance Statement (AGS) reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the AGS is misleading or inconsistent with other information I am aware of from my audit of the financial

Financial statements

statements. In our view the AGS as initially approved by the Audit Committee was not consistent with the findings from our audit.

- 45 No internal control weaknesses have been reported in the AGS despite the fact that we identified and reported to the Audit Committee a number of control weaknesses in our Interim Audit Report 2008/09. The AGS also refers to the role of Internal Audit but it does not comment on their work during 2008/09 and their effectiveness as a tool of internal control. During 2008/09 Internal Audit identified and made recommendations on a number of control weaknesses, which are also included in the AGS.

Recommendation

R21 Ensure that the Annual Governance Statement contains clear reference to weaknesses in internal control identified by Internal and External Audit and the actions taken in response to those weaknesses.

Letter of representation

- 46 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 47 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 2.

Table 2 Key areas of judgement and audit risk

Issue or risk	Finding
Our interim audit identified the risk of income being misstated owing to budgetary pressures and the risk of revenue expenditure being capitalised.	We were unable to obtain sufficient appropriate evidence to support £787k of income in the Income and Expenditure Statement, and £1.1 million of HRA income.
Our interim audit revealed the fact that the bank reconciliation was only performed at the year-end thereby presenting the risk of an inaccurate and incomplete cash and bank balance in the balance sheet.	We did not receive a complete and accurate bank reconciliation. There were errors with the bank reconciliation which have not been explained or resolved.
The Council does not raise purchase orders for expenditure, instead the expenditure is raised on the ledger on receipt of the invoice. This creates the risk	The Council has not provided sufficient appropriate evidence to support the balance of £6.9m of creditors in the Balance Sheet.

Issue or risk	Finding
that the year-end creditors and accruals will be understated.	

Accounting practice and financial reporting

48 I consider the qualitative aspects of your financial reporting. Table 3 contains the issues I want to raise with you.

Table 3

Issue or risk	Finding
Non submission of related party transaction declaration forms.	<p>Eight members and two senior officers have not submitted their related party transaction declaration forms.</p> <p>No alternative procedures (such as checks to the register) had been employed to assess the likelihood of omitted related party transactions.</p> <p>This may indicate that further training is required for both officers and councillors in respect to the process they need to go through when completing the RPTD.</p>
Incorrect treatment of Assize House Trust Fund	<p>There is inadequate disclosure of the nature of the Assizes Trust Fund, of which Brentwood Borough Council is the sole trustee. Specifically, Note 12 - Trust Funds discusses the correction made to the presentation of the Assizes House Trust Fund in ceasing to show its assets within the Council's balance sheet, as was the case in 2007/08, but it does not provide an indication of the nature of the fund, as required under the LG SORP.</p> <p>In addition, while note 17 - Temporary Investments and note 21 - Creditors disclose the assets of the fund as an amount deducted from the Temporary investments balance and deducted from creditors, summarised statements of the fund's accounts are not disclosed, contrary to the recommendations of the LG SORP for trust funds where the local authority is the sole trustee of significant funds.</p>
Historic Cost and Current Cost Depreciation	<p>The Council has provided no evidence of whether the value of historic cost depreciation differs in comparison with the value of depreciation on a current cost basis. The SORP requires that any difference would result in a transfer from the revaluation reserve to the capital adjustment account</p>

Financial statements

Recommendation
R22 Collate signed related party transaction disclosure forms from all members and senior officers.
R23 An independent audit needs to be conducted on the 2008/09 accounts for the Assize House Trust Fund in accordance with the Charities Act requirements..
R24 Evidence the calculation of the historic cost depreciation and the current cost depreciation so that the difference in amounts can be calculated and correctly accounted for.

Use of resources

I am required to 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 am also required to conclude 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

- 49 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.
- 50 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.
- 51 The Council's use of resources theme scores are shown in Table 4 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 4 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	1
Managing resources	1

- 52 A detailed Use of Resources report will be separately issued setting out the findings and recommendations from our work.

Value for money conclusion

- 53 I assess 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 will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.

Use of resources

- 54** I have identified weaknesses in your arrangements in four out of the eight areas assessed, as set out in Appendix 6 and summarised as follows:
- the Council was late in submitting its 2008/09 accounts and the accounts have been qualified with a disclaimer opinion;
 - data security arrangements are weak and staff are unaware of data quality requirements;
 - internal control and risk management arrangements are weak; and
 - workforce planning is not yet fully integrated and the Council lacks a full analysis of gaps in skills. The Council has not carried out a Single Status review.
- 55** I intend to issue an adverse qualified conclusion stating that the Council did not have adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 56** Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Brentwood Borough Council

Independent auditor’s report to the Members of Brentwood Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Brentwood Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the 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 Brentwood Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls.

Appendix 1 – Independent auditor’s report to Members of Brentwood Borough Council

Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except that the scope of my work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

However, the evidence available to me was limited because:

Balance Sheet

- The Council has not provided sufficient appropriate evidence to support the following balances within Tangible Fixed Assets (Note 11):
 - Disposals of Council Dwellings (£1.370 million);
 - Depreciation of Council Dwellings (£6.204 million) and of Vehicles, Plant and Equipment (£259k);
 - Impairment of Council Dwellings (£62.406 million)
 - Vehicles, plant & equipment (VPE) in the accounts is £368k but is £241k on the detailed asset register. An explanation for the difference has not been provided.

I am therefore unable to satisfy myself regarding the closing Net Book Values (NBV) for Council Dwellings (£405.752 million) and for Vehicles, Plant and Equipment (£368k). In addition the Housing Revenue Account (HRA) asset register shows asset value of £372 million which differs from the closing NBV for Council Dwellings of £405.752 million).

- I have also received no evidence to confirm that the Council has valued Council Dwellings on the basis of ‘Existing Use Social Housing’ as required by the Statement of Recommended Practice (SORP).

- The Council has not provided sufficient appropriate evidence to support its decision to capitalise £372k of expenditure across Council Dwellings, Other Land and Buildings, and Vehicles, Plant & Equipment.
- The Council has not provided sufficient appropriate evidence to support the Merrymeade House capital commitment of £873k (Note 11 (v)).
- The Council has not provided sufficient appropriate evidence to support the bank balance of £769k (overdrawn) in the Balance Sheet, as it did not provide a complete and accurate bank reconciliation.
- The Council has not provided sufficient appropriate evidence to support the balance of £5.7m of debtors and £6.9m of creditors in the Balance Sheet. The Council does not maintain an aged debtor listing, so it was not possible to determine whether the provision for doubtful debts of £848k is adequate.
- The Council has not provided sufficient appropriate evidence to support the deferred income balance of £214k.
- The Council has not provided sufficient appropriate evidence to support the revaluation reserve balance of £9.6 million in the Balance Sheet.
- The Council has not provided sufficient appropriate evidence to support the following receipts and payments in and from earmarked reserves (Note 30):
 - Receipts - Piper Life Line (£111k); Environmental Seminars (£9k).
 - Payments - Piper Life Line (£62k); Environmental Seminars (£14k); and Carry forward of budgets (£34k).
- The Council has not provided sufficient appropriate evidence to support the balance of £1.415 million for ‘Amounts Applied – Other’ within the Useable Capital Receipts Reserve (Note 28).

I am therefore unable to satisfy myself regarding the total net worth on the balance sheet of £419.680 million.

Income and Expenditure Statement

- The Council has not provided sufficient appropriate evidence to support £787k of income and £636k of expenditure within the Income and Expenditure Statement.
- My testing of income and expenditure transactions also showed that £125k was transferred from the Assize House Trust to fund revenue expenditure by the Council. No Trust documentation (deed or contracts) is kept by the Council and no separate accounting records are kept for the Trust. Therefore I could not establish whether revenue expenditure funded by the Trust is in accordance with the Trust objectives.
- The Council has not provided sufficient appropriate evidence to support the £174k Implementing Electronic Government grant and the £185k recycling grant. No details were provided of the assets purchased with the grant and the depreciation charged, therefore it was not possible to ensure that there were credits to the revenue account from the government grant deferred account as required by the Statement of Recommended Practice (SORP).

Appendix 1 – Independent auditor’s report to Members of Brentwood Borough Council

- The Council has not provided sufficient appropriate evidence to support the figure of £514k interest payable in the Income and Expenditure Statement.
- The Council has not provided sufficient appropriate evidence to support the Minimum Revenue Provision of £345k and the £31.611 million for depreciation and impairment of HRA assets included in the Statement of Movement on the General Fund Balance.
- The Council has not provided sufficient appropriate evidence to support the deduction of £1.307 million from the Temporary Investments balance (Note 17) and the same deduction from creditors (Note 21). The figure represents cash held in respect of the Assize House Trust Fund, which should not be included within the Council’s accounts.

I am therefore unable to satisfy myself regarding the closing deficit for the year on the Income and Expenditure Statement of £44.991 million.

Housing Revenue Account

- The Council has not provided sufficient appropriate evidence to support income of £10.650 million and expenditure of £46.708 million in the HRA.

I am therefore unable to satisfy myself regarding the net cost of service of the Housing Revenue Account of £36.145 million.

Collection Fund

- The Council has not provided sufficient appropriate evidence to support the income from Business Ratepayers (£27.341 million) and from Council Tax (£42.050 million) in the Collection Fund.
- The Council has also not provided sufficient appropriate evidence to support the basis of the distribution of the previous year’s surplus so I could not conclude that this was carried out correctly in accordance with paragraph 11(3) of the regulations (SI 2428/1992).

I am therefore unable to satisfy myself regarding the total income in the Collection Fund of £73.044 million and the total expenditure of £73.311 million.

Statement of Total Recognised Gains and Losses

- The Council has not provided sufficient appropriate evidence to support the ‘Other (Gains)/Losses’ figure of £89k.

I am therefore unable to satisfy myself regarding the total recognised loss for the year of £33.057 million.

Other areas of limitation of scope

- The Council has not provided sufficient appropriate evidence to support a number of adjustments from the entries in the General Ledger to entries in the Statement of Accounts. Without this evidence I was unable to gain assurance that these adjustments were adequately supported.
- The Council has not provided sufficient appropriate evidence to support £49.7 million of journal entries.

Opinion: Disclaimer on view given by the Statement of Accounts

Owing to the lack of appropriate and sufficient evidence to support the balances documented above I am unable to form an opinion as to whether the statement of accounts presents fairly the financial position of Brentwood Borough Council at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Adverse Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified the following:

- the Council was late in submitting its 2008/09 accounts and the accounts have been qualified with a disclaimer opinion;
- data security arrangements are weak and staff are unaware of data quality requirements;
- internal control and risk management arrangements are weak; and
- workforce planning is not yet fully integrated and the Council lacks a full analysis of gaps in skills. The Council has not carried out a Single Status review.

For the reasons set out above, and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am not satisfied that, in all significant respects, Brentwood Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, in that it did not put in place:

Appendix 1 – Independent auditor’s report to Members of Brentwood Borough Council

- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people;
- produce relevant and reliable data and information to support decision making and manage performance.
- manage its risks and maintaining a sound system of internal control; and
- plan, organise and develop its workforce effectively to support the achievement of its strategic priorities.

Paul King

Officer of the Audit Commission

Atlantic Business Centres

Lyttleton House

64 Broomfield Rd

Chelmsford

Essex

CM1 1SW

October 2009

Appendix 2 – Draft letter of representation

**To: Paul King
Audit Commission
Atlantic Business Centre
Lyttleton House
64, Broomfield Road
Chelmsford
Essex
CM1 1SW**

Brentwood Borough Council - Audit for the year ended 31st March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Brentwood Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2009. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

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 related information, including minutes of all Audit Committee and Policy Board meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

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

There have been no:

Appendix 2 – Draft letter of representation

- 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.

I also confirm that I have disclosed:

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

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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For assumptions made to estimate accruals, provisions, depreciation, impairment, asset valuations and FRS 17, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements other than disclosed in the financial statements.

Contingent liabilities

There are no other 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;
- 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.

Related party transactions

I confirm the completeness of the information disclosed 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

Post balance sheet events

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

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.

I confirm that the this letter has been discussed and agreed by the Audit Committee on 22nd October 2009.

Signed

Peter McKenzie

Head of Resources

Signed on behalf of Brentwood Borough Council

22 October 2009

Appendix 3 – Value for money criteria

KLOE	Met
Managing Finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	No
Governing the business	
Commissioning and Procurement	Yes
Use of information	No
Good governance	Yes
Risk management and internal control	No
Managing resources	
Workforce	No

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
5	R1: Acquire the necessary skills and capacity to address the significant issues noted in our Annual Governance Report in a timeframe that will ensure the 2009/10 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers.					
9	R2: Maintain an up to date asset register which lists all Council dwellings and Vehicles, Plant & Equipment.					
9	R3: Value all Council dwellings at Existing Use Value (Social Housing)					
9	R4: Ensure all assets are depreciated correctly and assets have been subject to a full and proper impairment review.					
9	R5: Identify all assets that have been subject to impairment and maintain proper records.					

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6: Provide transaction listings for all year-end debtors and creditors.					
9	R7: Record the age of all debtors and use this information to undertake an aged debt analysis. Ensure that the provision for doubtful debts accurately reflects your calculation of debtor age.					
9	R8: Complete the work on the year end bank reconciliation to clarify the cash position					
10	R9: Ensure all balance sheet items are fully supported by adequate and sufficient evidence.					
10	R10: Retain all documentation relating to capital commitments.					
10	R11: Ensure that key entries in the Income and Expenditure Statement are fully supported by adequate and sufficient evidence.					
11	R12: Ensure that the Statement of Movement on the General Fund Balance, the Housing Revenue Account, the Collection Fund and the Statement of Total Recognised Gains and Losses are fully supported by adequate and sufficient audit evidence.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R13: Ensure that the Assize House Trust Fund balances are fully supported by adequate and sufficient evidence and that they are properly excluded from the Council's Statement of Accounts.					
12	R14: Ensure that the Statement of Accounts is based on the General Ledger with adjustments and other movements fully explained and evidenced.					
13	R15: Ensure that all journals have sufficient and appropriate documentation to support the movements. These journals should be reviewed by a second officer to ensure that they are accurate and correct. Preparation and review should be clearly documented.					
14	R16: Ensure that the appropriate accounting treatment is applied to the depreciation of non-operational investment properties; the Capital Adjustment Account, Interest Receivable and the Cash Flow Statement.					
14	R17: Review the accounting treatment of leased assets to ensure that they are correctly classified as either operating leases or finance					

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	leases, and that the consequent correct accounting treatment is applied.					
14	R18: Undertake regular reconciliations of the Fixed Asset Register with other systems to ensure that the Register is accurate, complete and up to date.					
14	R19: Undertake monthly bank reconciliations during the year. These reconciliations should be reviewed by a second officer to ensure that they are accurate and complete. Preparation and review should be clearly evidenced.					
14	R20: Undertake regular debtor and creditor control account reconciliations. These reconciliations should be reviewed by a second officer to ensure that they are accurate and complete. Preparation and review should be clearly evidenced.					
15	R21: Ensure that the Annual Governance Statement contains clear reference to weaknesses in internal control identified by Internal and External Audit and the actions taken in response to those weaknesses.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
17	R22: Collate signed related party transaction disclosure forms from all members and senior officers.					
17	R23: An independent audit needs to be conducted on the 2008/09 accounts for the Assize House Trust Fund in accordance with the Charities Act requirements..					
17	R24: Evidence the calculation of the historic cost depreciation and the current cost depreciation so that the difference in amounts can be calculated and correctly accounted for.					

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.

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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
