

# Annual Governance Report

**Brentwood Borough Council**  
**Audit 2009/10**

**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.**

# Contents

<b>Key messages</b> .....	<b>4</b>
Audit opinion .....	4
Value for money .....	5
Audit fees .....	6
Independence .....	6
Other matter - delay in certification of completion of the audit .....	6
<b>Next steps</b> .....	<b>7</b>
<b>Financial statements</b> .....	<b>8</b>
Opinion on the financial statements .....	8
Errors in the financial statements .....	9
Important weaknesses in internal control .....	10
Letter of representation .....	11
Key areas of judgement and audit risk .....	11
Accounting practice and financial reporting .....	14
Other matter - delay in certification of the completion of the audit .....	20
<b>Value for money</b> .....	<b>21</b>
Value for money conclusion .....	21
Criteria assessed as inadequate .....	22
<b>Glossary</b> .....	<b>25</b>
<b>Appendix 1 – Independent auditor’s report to Members of Brentwood Borough Council</b> .....	<b>26</b>
Independent auditor’s report to the Members of Brentwood Borough Council .....	26
Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources .....	28
<b>Appendix 2 – Amendments to the draft accounts</b> .....	<b>31</b>
<b>Appendix 3 Unadjusted misstatements in the accounts</b> .....	<b>36</b>
<b>Appendix 4 – Request for a letter of representation</b> .....	<b>37</b>
<b>Appendix 5 – Value for money criteria</b> .....	<b>41</b>



Members of the Audit Committee

## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Finance and Head of Resources on 27 September 2010 and updated it as issues have been resolved.

My 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 before re-approving the financial statements (pages 8 to 20);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve and provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the qualified value for money conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Paul King  
District Auditor

September 2010

# Key messages

**This report summarises the findings from the 2009/10 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.**

---

Financial statements	Results	Page
Unqualified audit opinion	No	7
Financial statements free from material error	No	7
Adequate internal control environment	No	7
Value for money	Results	Page
Adequate arrangements to secure value for money	No	21

---

## Audit opinion

**1** Subject to the provision of a revised set of financial statements, I propose to issue a qualified 'except for' opinion arising from a limitation of scope on the 2009/10 financial statements for Brentwood Borough Council. This because I have been unable to determine that:

- General fund elements of the 2009/10 Income and Expenditure account are complete as I have been unable to gain sufficient and appropriate assurance in respect of the appropriate allocation of debtors and creditors as at 31 March 2009 to the correct financial year.
- All restated 2008/09 figures within the accounts and associated notes give a true and fair view as I have been unable to test these balances.

**2** These qualifications are primarily owing to the lack of supporting evidence for 2008/09 balances and for which a disclaimer of opinion was issued on the 2008/09 financial statements. We have therefore not been able to meet the requirements of International Standards on Auditing (ISA) 710 'Comparatives'.

- 3 Our audit of the 2009/10 financial statements has concentrated on the closing balances at 31 March 2010 and the transactions for the year. It has also concentrated on the establishment of the correct opening balances within the 2009/10 ledgers, due to the fact that we have been unable to audit the component elements of the restated 2008/09 figures. This is to ensure that we have met the requirements of ISA 510 in respect of opening balances.
- 4 The financial statements were approved by the Audit Committee on 29 June 2010. A revised version of the financial statements will be available to the Audit Committee to be re-approved on 28 September 2010.
- 5 The financial statements presented for audit were of poor quality owing to the time pressures associated with preparing them. Whilst the financial statements themselves were complete, our audit has identified a significant number of amendments of which two are material. The impact of the amendments has been to increase the general fund balance by £2.2 million (subject to change following receipt of amended financial statements).
- 6 Whilst there has been a significant improvement in the Council's ability to close down the accounts and prepare the financial statements, there remains significant scope for further improvement.
- 7 The Finance Team and many other Council officers have been very helpful in answering audit queries and I would like to thank them for their co-operation.

## Value for money

- 8 I have concluded that the Council met the minimum standards for five of the nine criteria assessed for 2009/10. This includes a re-assessment of the workforce criteria, which I assessed as inadequate in 2008/09. Whilst I have concluded that the Council has not met the minimum standards for the remaining four criteria, overall the Council has made improvements in its arrangements for securing value for money since 2008/09. I am still considering my opinion on the value for money conclusion. In 2008/09, my value for money conclusion was qualified on an 'adverse' basis, which is a more significant qualification. My 2009/10 conclusion is currently subject to a peer review to confirm the appropriateness of that judgement, although it is likely to be adverse. I plan to issue my value for money conclusion prior to the statutory deadline of 30 September 2010.
- 9 Whilst the level of general fund balances at 31 March 2010 has increased, the balance sheet at that date shows that the Council has weak financial standing because the Council has little short term liquid resources other than debtors and significant long term liabilities, namely the PWLB borrowing, which following re-scheduling means that £5 million will be due for repayment in two years time. The Council has also liquidated its short term investments during 2009/10, so that they are now nil, compared to £6.25 million in the restated 2008/09 balance sheet. Consequently there is a

risk that the Council has insufficient liquid resources to meet current financial commitments.

## Recommendation

**R1** The Council should seek to improve its financial standing and availability of liquid resource over the short to medium term as a matter of urgency.

## Audit fees

**10** I reported in my 2009/10 Opinion Audit Plan the reasons for an increase in the original proposed audit fee to £162,000 (Table 1). This was because of the many risks to the 2009/10 opinion following the disclaimer opinion issued on the 2008/09 statement of accounts and the qualified value for money conclusion. Identification and resolution of the audit issues set out in this report, along with the issues concerning audit working papers, has meant that substantial additional audit work has been required. This means that a further additional fee will be required. I will discuss and agree the fee with the Director of Finance following completion of the audit.

Table 1: **Audit fee for 2009/10**

Audit area	Planned fee 2009/10	Revised fee 2009/10	Final fee 2009/10
Total audit fee	143,250	162,000	TBC*

\* The amount to be charged will be quantified following the conclusion of our work.

## Independence

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

## Other matter - delay in certification of completion of the audit

**12** The audit cannot be formally concluded and my audit certificate issued until I have completed my consideration of matters brought to my attention by a local elector. I am satisfied that these matters do not have a material effect on the Council's financial statements, which means that I can issue my audit opinion.

## 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.**

---

**13** I ask the Audit Committee to:

- consider the matters raised in the report before re-approving the financial statements (pages 8 to 20);
- 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, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve and provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the qualified value for money conclusion; and
- agree your response to the proposed action plan (Appendix 5).

# 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

**14** Subject to the provision of a revised set of financial statements, I plan to issue an audit report including a qualified opinion on the financial statements. My opinion is qualified because I have been unable to determine that:

- general fund elements of the 2009/10 Income and Expenditure account are complete as I have been unable to gain sufficient and appropriate assurance in respect of the appropriate allocation of debtors and creditors as at 31 March 2009 to the correct financial year.
- all restated 2008/09 figures within the accounts and associated notes give a true and fair view as I have been unable to test these balances.

**15** These qualifications are primarily due to the lack of supporting evidence for 2008/09 balances and for which a disclaimer of opinion was issued on the 2008/09 financial statements. The Council has been able to support the 2009/10 transactions and closing balances appropriately in the majority of cases.

**16** My audit of the 2009/10 financial statements has concentrated primarily on the establishment of the correct opening balances within the 2009/10 ledgers. This is because I have been unable to audit the restated 2008/09 figures due to an absence of detailed supporting records.

**17** Officers are working on issues raised and I am expecting an amended set of financial statements on 28 September. I will update the Audit Committee verbally on progress in these areas at the meeting on 28 September.

## Errors in the financial statements

**18** I identified errors in the financial statements (other than those of a trivial nature) and reported these to management. We found two material errors and 15 non-trivial errors, all of which have been corrected.

**19** I have summarised the errors which management has decided or been unable to correct in Appendix 3.

**20** The material errors identified were:

- The Assize House Trust Fund creditor (£1.314 million) did not represent a valid obligation on the part of the Council. The correct accounting treatment was to reduce the cash and bank balance by £501,000 and write back £813,000 to the Income and Expenditure account as an exceptional item.
- Collection Fund:
  - The Council failed to address the Statement of Recommended Practice (SORP) change. As a result the Council continued to recognise a Collection Fund Reserve instead of a Collection Fund Adjustment Account;
  - Correcting this error resulted in material amendments to the debtors, creditors and reserves figures.

**21** I have summarised the material and non-trivial amendments in Appendix 2.

**22** Appendix 3 contains the unadjusted errors and uncertainties I identified during my audit and for which management representations are sought. The key one I would like to bring to your attention is:

- The accounts contain a £850k receipt in advance which relates to a previous bequeathment in respect of the playing fields and open areas surrounding the Nightingale Centre. I was unable to obtain sufficient appropriate evidence to establish the nature of this balance to gain assurance that it is correctly accounted for.

### Recommendation

**R2** Review the receipt in advance relating to the Nightingale Centre and establish the correct accounting treatment.

**23** The Council have made significant improvements to the timeliness of the preparation of the financial statements, compared to 2008/09. However, in the period up to, and immediately after, the financial statements were approved there were three versions of the financial statements in existence. The version provided for Audit for audit was neither the version approved by the Audit Committee, nor that signed by the Chief Executive and the Leader of the Council.

**24** The provision of working papers has also improved markedly in comparison to 2008/09 and internal quality checks are now in place. However there is still scope for improvement as a full set of supporting working papers were not provided at the start of the audit. During the audit, working papers were provided in an ad hoc basis when requested and some did not adequately and fully support the accounts and some contained errors.

**25** The Finance Team and many other Council officers have been very helpful in answering audit queries and I would like to thank them for their co-operation.

## Recommendation

**R3** Ensure the 2010/11 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers, and that appropriate quality assurance arrangements are in place.

---

**R4** Undertake a review of the 2009/10 closedown plan to identify:

- where bottlenecks, delays and slippages in preparation occurred; and
- where processes can be improved to allow sufficient time for enhanced quality review processes to be undertaken.

---

## Important weaknesses in internal control

**26** I reported the findings from my interim audit to the Audit Committee on 28 June 2010. In this report I highlight the 2009/10 Head of Internal Audit Opinion which gave limited assurance on the system of internal control.

**27** During 2009/10 Internal audit issued the following opinions on their audits:

- 3 areas received full assurance;
- 12 areas received limited assurance; and
- 3 areas received no assurance.

**28** The Council should ensure that all Internal Audit's recommendations are implemented and monitor progress of their implementation.

**29** One additional issue that we have identified since our interim report is that there is no common suite of controls that operate across the Council in respect of capital expenditure. The absence of such standardised and consistent controls presents a risk that revenue expenditure is treated as capital and the Council does not have effective means to monitor their capital programme.

## Recommendation

**R5** Continue to implement recommendations and monitor progress against agreed action plan in the 2009/10 Interim Audit Report.

**R6** Implement all recommendations made by Internal Audit and monitor progress.

**R7** The Council should define a common set of capital expenditure controls to be applied across the Council to ensure that the capital programme is monitored effectively.

## Letter of representation

**30** 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 items for which I require representation.

## Key areas of judgement and audit risk

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

Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
In 2008/09 I issued a disclaimer opinion. There is the risk that without significant work on the 2008/09 closing balances the Council will receive a further disclaimer opinion for 2009/10.	The Council undertook a significant exercise to correct previous errors and as a result we have been able to issue an 'except for' qualified opinion on the 2009/10 financial statements. Refer to Appendix 1 for the Auditor's Report.
As the economic downturn continues, local authorities anticipate less grant support from central government. The Council has re-assessed its general balances as part of the 2010/11 budget setting exercise and needs to increase the balances. Budget monitoring for 2009/10 at month 7 projected a £367,000 underspend on the General Fund budget however this was a significant change from the £768,000 overspend forecast at month 6. A further re-forecasting exercise in February 2010 has led to a revised underlying overspend of £465,000 - although this is likely to be affected by the Council anticipating a significant VAT refund from HMRC.	We have substantively tested the income and expenditure in the financial statements and we have not found any evidence of manipulation. All non-trivial misstatements identified during the audit have been corrected for. The impact of the amendments has been to increase the Council's surplus and general fund balance by £2.2 million (subject to change following receipt of amended financial statements).

Issue or risk	Finding
<p>This increases the risk of manipulation of income and expenditure by overstating income and understating spending to remain within budgets for 2009/10.</p>	
<p>The Council's budgets and accounts include no recognition of equal pay claims as the Council has not gone through the Single Status review. If the Council receive claims following this review, this will potentially worsen the Council's financial position and increase the risk of manipulation of the accounts to remain within budget. Provisions on the balance sheet may be understated.</p>	<p>The Council has yet to commence its Single Status review although it is committed to undertaking this review. The matter should be disclosed as a contingent liability within the accounts as it is possible that the outcome of the review will be an obligation on the Council. This possible obligation arises from the legislative requirement to undertake a review, but the extent of any obligation will only be established when the review is complete.</p> <p>The Council have amended the accounts to disclose a contingent liability.</p>
<p>Our audit in 2008/09 found an insufficient audit trail between the accounting records and the financial statements through inadequate supporting documentation for journals.</p>	<p>We have substantively tested all material year end journals and have not identified any issues that need to be reported.</p>
<p>Several reconciliations between feeder systems and the general ledger were only undertaken at year end during 2008/09. In our interim report we recommended the Council undertook them more regularly.</p> <p>The Council could not provide a complete and accurate bank reconciliation for 2008/09.</p>	<p>The Council provided us with complete bank reconciliations for 2008/09 and 2009/10 which we were able to audit. Our audit only identified some non-trivial errors which the council have amended for, as set out in Appendix 2.</p> <p>The feeder systems had been reconciled to the ledger at the year end.</p>
<p>During 2008/09 we found that the Council had not obtained related party declarations from all members and senior officers therefore creating the risk that related parties were not properly disclosed.</p>	<p>The Council provided all declarations of interest for 2009/10.</p>
<p>The Council did not provide sufficient appropriate evidence to support significant balances within the 2008/09 financial statements, the main ones being:</p> <ul style="list-style-type: none"> <li>■ disposals of council dwellings;</li> <li>■ depreciation of council dwellings and vehicles, plant and equipment;</li> <li>■ impairment of council dwellings;</li> <li>■ deferred income;</li> </ul>	<p>The Council has provided sufficient appropriate evidence to support the 2009/10 balances for these items, however we are still unable to obtain sufficient appropriate evidence over the re-stated 2008/09 balances, with the exception of Housing Revenue Account (HRA) income and expenditure for which we have gained assurance.</p> <p>As a consequence the audit opinion contains a qualification in respect of all 2008/09 re-stated balances (with the exception of the HRA and the Collection Fund)</p>

Issue or risk	Finding
<ul style="list-style-type: none"> <li>■ revaluation reserve;</li> <li>■ earmarked reserves;</li> <li>■ usable capital receipts;</li> <li>■ capital commitments;</li> <li>■ income and expenditure;</li> <li>■ government grants;</li> <li>■ interest payable;</li> <li>■ minimum revenue provision; and</li> <li>■ HRA income and expenditure.</li> <li>■</li> </ul>	<p>See the Auditor Report in Appendix 1.</p>
<p>The Council did not value its Council Dwellings on an 'Existing Use Value - Social Housing' basis in 2008/09 and prior years.</p>	<p>The Council have corrected this and Council Dwellings are valued at 'Existing Use Value - Social Housing' in the re-stated 2008/09 balances and the closing 2009/10 balances.</p>
<p>The Council could not provide transaction listings from the general ledger to support the debtors and creditors balance.</p>	<p>We have been able to substantively test the 2009/10 debtors and creditors balances.</p>
<p>The Council could not provide sufficient appropriate evidence to support a number of adjustments from the entries in the general ledger to entries in the 2008/09 statement of accounts.</p>	<p>Our agreement of the trial balance to the 2009/10 financial statements identified that the trial balance and financial statements contained a number of non-trivial differences. The Council have amended for these differences.</p> <p>Deficiencies still exist in respect of detailed reports coming from the Iworld (NNDR and Council Tax) and Orchard (Housing Rents) systems for the year end debtor and creditor amounts.</p>
<p>In 2008/09 we disagreed with the Council's accounting treatment for leases. Our work found that the lease payments in respect of waste collection vehicles should be treated as finance leases whereas the Council was treating them as operating leases.</p>	<p>The Council has undertaken an exercise to review the accounting treatment of all of their leases. We have reviewed this work and are satisfied with the accounting treatment in 2009/10.</p>
<p>Our audit in 2008/09 found that reliance is placed on historical records on the fixed assets register. There is no regular review and reconciliation to other records (in particular the housing rents system) to ensure that all assets are identified. This resulted in omissions from the fixed assets register in 2008/09.</p>	<p>During 2009/10 the Council have reconciled the fixed assets register to the general ledger, and they have also reconciled the fixed assets register to the tenancy accounts on the housing rents system.</p>

Issue or risk	Finding
For 2008/09 the Council did not obtain a Head of Internal Audit Opinion. Additionally the Annual Governance Statement did not refer to any of the internal control weaknesses that we had reported during our interim report.	The Head of Internal Audit Opinion has been issued for 2009/10. This is consistent with the contents of the Annual Governance Statement.

## Accounting practice and financial reporting

**32** I consider the non-numeric content of your financial reporting. Table 3 contains the issues I want to raise with you.

Table 3:

Issue or risk	Finding
The financial statements are not internally consistent and numerically accurate.	<p>The financial statements presented to audit contained numerous internal inconsistencies, numerical inaccuracies and spelling and grammatical errors.</p> <p>The Council have amended the financial statements for these findings.</p>
<b>33</b> The financial statements do not comply with all relevant accounting standards, legislation and the Statement of Recommended Practice (SORP).	<p>A number of the errors identified in Appendix 2 are a result of both the mis-application and non-application of accounting standards and the SORP.</p> <p><b>34</b> For example:</p> <ul style="list-style-type: none"> <li>■ The Cashflow statement was not compliant with the requirements of FRS1. This has now been amended.</li> <li>■ The draft financial statements presented for audit did not contain the following entries as required by the SORP (now included): <ul style="list-style-type: none"> <li>– Collection Fund Adjustment Account</li> <li>– Financial Instruments notes</li> </ul> </li> <li>■ The HRA and associated Notes were non-compliant with the most recent SORP. The Council have amended for this.</li> </ul> <p>The Council did not undertake a survey of their housing stock in accordance with the HRA guidance as required for the Housing Stock Base Data Return. This has resulted in a qualification letter to the CLG in respect of the return.</p>

Issue or risk	Finding
<p>The Council do not comply with all accounting requirements for the distribution of Council Tax Surpluses and budget setting process.</p>	<p>Review of the distribution of prior years Council Tax Surpluses within the draft financial statements and the processes supporting and the calculations identified that the Council are not complying with the provisions of relevant statutory requirements that:</p> <ul style="list-style-type: none"> <li>■ A billing authority should estimate the surplus/deficit for the end of each financial year by January 15 of that year and notify other major precepting bodies. This was because no estimates had been prepared for either 2008/09 or 2009/10 and no formal communications had been undertaken with major precepting bodies.</li> <li>■ The surplus/deficit be split between authorities according to the proportion that their demand/precept constitutes of the total for demands/precepts for that year. This was because incorrect years precept demands had been used in the calculations performed for the amounts disclosed in 2009/10.</li> </ul>
<p>The HRA is charged with costs that are not statutorily allowable.</p>	<p>Testing of HRA repairs and maintenance expenditure identified that during the year the costs incurred by the Housing DSO for sundry repairs work on housing stock are recharged to the HRA utilising an out of date tariff and that at year end a journal is posted to charge the HRA with the shortfall on the DSO codes this being to a) ensure that the HRA is charged with at least the full cost of the jobs and b) in essence ensure that Housing DSO breaks even. The year end journal for 09/10 charged £273k of expenditure into the HRA.</p> <p>As a result there is potential for council taxpayers to be cross-subsidising the HRA and vice versa.</p> <p>The above represents incorrect practice as;</p> <ul style="list-style-type: none"> <li>■ The DSO should have an up to date tariff that represent the full costs of the job and only charge on this basis or on the basis of individually costed and agreed jobs so that the HRA is only be charged with the agreed cost of the jobs.</li> </ul>

Issue or risk	Finding
<p>The Council's accounts do not comply with accounting standards (FRS 5 Substance over form)</p>	<ul style="list-style-type: none"> <li>■ The HRA should only be charged with the actual cost of the works done and NOT be used to make up for any deficits arising from the running of the DSO.</li> <li>■ By ensuring that the DSO breaks even each and every year, the Council have no way of knowing if the DSO is profit or loss making and hence are unable to determine if it is the most efficient, effective and economic way of providing a repairs service to Housing stock.</li> </ul> <p>Review by the Council of the Assize House Trust accounting within the financial statements has established that there is no formal agreement between the Council and the Trust delineating the services to be provided and / or any other contractual arrangements.</p> <p>The Council provides exchequer services to the Trust and remits interest earned on the sums held by the Council to the Trust. Therefore the absence of such an agreement represents a governance risk. Without an agreement the nature and scope of any activities undertaken and the respective responsibilities of each party are not clear.</p> <p>The absence of such an agreement further results in the arrangements for paying 'interest' being undefined. Therefore it is not possible to determine if any interest payment made by the Council is in accordance with the contractual requirement to do so. Any agreement to pay interest to the Trust, other than that directly earned by the investment of their funds, will result in the funds forming a loan in the hands of the Council under FRS5 and hence required to be accounted for as such.</p> <p>It is also not possible to determine if the Council should be making / collecting a service charge for the services provided as similarly, this has not been agreed.</p> <p>The Council should regularise the situation with the Assize House Trust by formally agreeing at a minimum;</p>

Issue or risk	Finding
	<ul style="list-style-type: none"> <li>■ the nature of the relationship, including respective responsibilities between the two organisations,</li> <li>■ the extent, nature and scope of all and any services to be provided by the Council,</li> <li>■ the mechanism for charging for those services provided to the Trust</li> <li>■ the contractual obligations in respect of the payment of interest on those sums held by the Council on the Trust behalf.</li> </ul> <p>Appendix 2 summarises the accounting adjustments we have made in respect of the Assize House Trust Fund.</p>
<p>Members allowances are not calculated correctly and members have not received the correct payments.</p>	<p>Detailed review of the calculation of Members Allowances has identified that;</p> <ul style="list-style-type: none"> <li>■ one councillor's basic allowance was underpaid by £426 during the year; and</li> <li>■ one councillor's basic allowance was overpaid by £110.</li> </ul>
<p>Incorrect calculation of year end council tax debtor/creditor position resulting in incorrect information being provided to the precepting bodies</p>	<p>Review of the Council's establishment of the Collection Fund Adjustment Account has identified that the information supplied to Essex County Council and disseminated to other preceptors contained errors in that the 'Council tax overpayments and pre-payments' figures were incorrect. Whilst this has been corrected in Brentwood Borough Council's calculations. It has not been communicated to other major preceptors. We have informed these bodies via our letter of assurance, however the Council should ensure that it disseminates the correct information to third bodies.</p>
<p>The Council have not identified the internal asset owners and thus apportionment bases may be inappropriate.</p>	<p>Review of the Council's capital accounting processes has identified there is presently no evidence available to determine if the users of all registered assets have been identified and hence if appropriate bases of apportionment are used where assets are shared between more than one owner.</p> <p>We have received no evidence that users have been asked to confirm the assignment of responsibility for assets identified to them.</p>
<p>The Council do not operating capital financing</p>	<p>The Council have not calculated the capital financing requirement (CFR) and all associated</p>

Issue or risk	Finding
<p>in accordance with the regulations and hence set inappropriate prudential borrowing levels which result in unaffordable levels of borrowing.</p>	<p>matters in accordance with the regulations. This has resulted in the CFR being over-stated, prudential borrowing levels being set too high and the Council providing for the repayment of debt in excess of the minimum revenue provision (MRP). The regulations require the Council to set-aside a prudent amount for the repayment of external debt. As at the balance sheet date the Council only has £1.8 million headroom for borrowing to the operational boundary.</p>

## Recommendation

- R8** The Council should undertake a full quality review of the financial statements to ensure that the disclosures made are arithmetically accurate and internally consistent.
- 
- R9** Ensure all staff involved in the closedown and preparation of the financial statements are aware of the accounting standards and the requirements of the SORP. Arrangements should be put in place to review compliance of financial statements with the relevant accounting standards.
- 
- R10** The Council should undertake a full housing stock take and implement procedures for housing surveys to be undertaken on a regular basis to support a needs assessment of capital works to be undertaken and to ensure that housing data remains fit for purpose in the future.
- 
- R11** The Council should put in place procedures to ensure that all relevant statutory requirements in respect of the distribution of prior year's council tax surpluses are met.
- 
- R12** The practice of recharging the DSO to the HRA should be reviewed and regularised to ensure that the HRA is only charged with the fair and full cost of the works undertaken and that the profitability, efficiency and effectiveness of the DSO can be measured and monitored.
- 
- R13** The Council should review its obligations and arrangements with the Assize House Trust Fund and ensure that proper governance arrangements are introduced.
- 
- R14** The Council should ensure that member allowances are paid their correct entitlement.
- 
- R15** The Council should put in place proper arrangements for the calculation and notification of the year end amounts relating to the collection fund adjustment account to other precepting authorities.
- R16** The Council should agree with precepting authorities a procedure for notification where figures change.
- 
- R17** The Council should undertake a process of identifying internal owners of assets to ensure departments are correctly charged, on a fair basis, with all relevant asset related costs.
- 
- R18** The Council should do a full review of their capital financing accounting and associated calculations to ensure that all statutory requirements are met and authorised borrowing levels are affordable.
-

## **Other matter - delay in certification of the completion of the audit**

**35** The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by a local elector. I am satisfied that these matters do not have a material effect on the Council's financial statements, which means that I can issue my audit opinion.

# Value for money

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

## Value for money conclusion

**36** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. These criteria include a re-assessment of the workforce criteria, which was assessed as inadequate in 2008/09. I have shown my conclusions on each of the criteria in Appendix 5, together with the key findings that support my conclusions. I have concluded that the Council met the minimum standards for five of the nine criteria assessed for 2009/10, but has not met the minimum standards for the remaining four criteria.

**37** I am still considering my opinion on whether the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

**38** Whilst I have assessed that the Council has not met the minimum standards for the remaining four criteria, overall the Council has made improvements in its arrangements for securing value for money since 2008/09. I am still considering my opinion on the value for money conclusion. In 2008/09, my value for money conclusion was qualified on an 'adverse' basis, which is a more significant qualification. My 2009/10 conclusion is currently subject to a peer review to confirm the appropriateness of that judgement, although it is likely to be adverse. I plan to issue my value for money conclusion prior to the statutory deadline of 30 September 2010.

## Criteria assessed as inadequate

### **Planning its finances effectively to deliver its strategic priorities and securing sound financial health**

**39** Whilst the level of general fund balances at 31 March 2010 has increased, the balance sheet at that date shows that the Council has weak financial standing because the Council has little short term liquid resources other than debtors and significant long term liabilities, namely the PWLB borrowing, which following re-scheduling means that £5 million will be due for repayment in two years time. The Council has also liquidated its short term investments during 2009/10, so that they are now nil, compared to £6.25 million in the restated 2008/09 balance sheet. Consequently there is a risk that the Council has insufficient liquid resources to meet current financial commitments.

**40** Financial and operational performance monitoring are not linked and it will be a long time before this is likely to occur given the inadequacy of information systems. The Council has had significant failings in its financial planning and this is implicitly acknowledged by the decision to defer revision of the medium term financial strategy (MTFS) until Autumn 2010. The Council decided not to revise the MTFS in 2009/10 because of their problems with budget setting and monitoring in 2009/10.

**41** In response to a projected overspend for 2009/10 the Council revised its budget and ceased all 'non essential' expenditure. Although the outturn for the year was a surplus of £1.115 million this was due to the late receipt of an unplanned VAT refund of some £1.415 million and there was still an 'underlying' year end overspend of £0.465 million. The final outturn is thus the result of an unplanned receipt as opposed to strong financial management.

### **Timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people**

**42** The 2009/10 accounts have received a qualified 'except for' opinion, as set out elsewhere in this report, notwithstanding that this is a significant improvement on the disclaimer of audit opinion in 2008/09. The Council have put a significant amount of effort into producing an auditable set of accounts in 2009/10, and their performance shows significant improvement although with some way to go.

**43** Budget monitoring during 2009/10 was ineffective and there were significant variations in forecast outturn during the year, for example in September 2009 the Council reported a £768,000 overspend, in October 2009 this was revised to a £367,000 underspend and in January 2010 it was reported that the revised forecast was a £465,000 overspend. This reflected a budget monitoring system that was not robust.

## Promoting and demonstrating the principles and values of good governance

**44** Whilst the Council generally meets the basic principles of good governance, there are weaknesses in partnership governance arrangements identified by Internal Audit. Internal Audit's review found that during 2009/10 the Council did not have a Strategic Partnership Policy in place and there were no formal partnership governance arrangements. Partnership Agreements and Terms of Reference were not in place for all partnerships with the Council. The Council's partnerships were not subject to regular review. There was no complete and up to date record of all partnerships and the records that did exist did not contain sufficient information.

## Managing its risks and maintaining a sound system of internal control

**45** Effective risk management is still emerging. The Council is improving its approach to risk management however it is yet to be fully embedded within the organisation. There are no risk management arrangements in place for partnerships.

**46** Basic control weaknesses continued during 2009/10 for example a lack of regular reconciliation from the feeder systems to the general ledger; journals which are not authorised or supported; and a lack of retained documentation and evidence. Internal Audit issued a limited opinion on the system of internal control at the Council.

### Recommendation

**R19** Prepare a medium term financial strategy that is kept up-to-date and regularly monitored.

---

**R20** Produce relevant, timely and reliable financial monitoring and forecasting information to both service managers and Members. Use this information to take a corporate overview of the financial position and monitor the budget.

---

**R21** Continue to strengthen the Finance Team to enable the timely closedown of the accounts and the preparation of the financial statements and accompanying working papers.

---

**R22** Introduce a robust budget monitoring system whereby all budgetary reports accurately reflect the financial position of the Council.

---

**R23** Establish formal governance arrangements with all partners.

---

**R24** Develop effective risk management arrangements which cover partnerships.

---

**R25** Develop and maintain a strategic and operational risk register which has specific and up-to-date risks that are pertinent and relevant to the Council.

---

## Recommendation

**R26** Undertake monthly control account reconciliations between all feeder systems and the general ledger.

---

**R27** Retain an evidenced audit trail for all transactions.

---

**R28** Journals should be authorised and adequately supported with documentation to demonstrate the reason for the journal.

---

**R29** Ensure all officers respond to Internal Audit's recommendations and monitor progress against achieving them.

---

# Glossary

## **Annual governance statement**

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

## **Audit closure certificate**

**48** 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 certificate.

## **Audit opinion**

**49** On completion of the audit of the accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

## **Qualified**

**50** The auditor has some reservations or concerns.

## **Unqualified**

**51** The auditor does not have any reservations.

## **Value for money conclusion**

**52** 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.

# 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 accounting statements

I have audited the Council’s accounting statements and related notes of Brentwood Borough Council for the year ended 31 March 2010 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 published by the Audit Commission in April 2008.

### Respective responsibilities of the Head of Resources and auditor

The Section 151 Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council 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 accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council'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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council'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 accounting statements and related notes 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 accounting statements and related notes.

The Council has restated the 2008/09 figures. However, with the exception of those items relating to the Housing Revenue Account and Collection Fund, I have been unable to obtain sufficient appropriate evidence to support the restated 2008/09 figures as adequate accounting records were not available.

I have been unable to obtain sufficient and appropriate evidence in respect of the following 2009/10 opening balances and disclosures for corresponding amounts for the year ended 31 March 2009:

- Debtors (£4,558,000)
- Creditors (£6,726,000)
- General fund (£1,692,000).

I am therefore unable to obtain sufficient appropriate evidence concerning the recognition of income and expenditure between the years ended 31 March 2009 and 2010.

There were no other satisfactory audit procedures which I could adopt to confirm these balances and disclosures.

## Qualified opinion arising from limitation of audit scope

Except for the financial effects of such adjustments as might have been determined to be necessary had I been able to obtain sufficient appropriate evidence concerning:

- the restated Balance Sheet as at 31 March 2009;
- the restated Income and Expenditure Account for the year ended 31 March 2009;
- the allocation of income and expenditure to the correct financial year arising from the application of debtors and creditors as at 31 March 2009 to the relevant accounting period;
- the Income and Expenditure Account for the year ended 31 March 2010 (excluding the line items titled Housing Revenue Account and Income from Collection Fund for which I have assurance); and
- the associated notes to the accounting statements.

in my opinion the Council accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure account for the year then ended.

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Council's Responsibilities

The Council 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 Council 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009.

I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council'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 that:

- Financial and operational performance monitoring were not linked. The Council did not prepare a Medium Term Financial Strategy in 2009/10;
- The Council had inadequate arrangements in place to ensure it had sufficient liquid assets to cover short term and medium term commitments.

- Financial information was inconsistent during the year, financial reporting was not robust and I have issued a qualified opinion on the 2009/10 financial statements for the reasons set out above in my opinion on the accounting statements.
- The Council did not have a Strategic Partnership Policy in place and there were no formal partnership governance arrangements. The Council's partnerships were not subject to regular review. There was no complete and up to date record of all partnerships.
- Major control weaknesses were identified during my audit, the Head of Internal Audit Opinion for 2009/10 gave limited assurance on the system of internal control at the Council and risk management arrangements are weak, with no arrangements to manage risks arising from partnerships.

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 October 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 2010, in that it did not put in place adequate arrangements for:

- planning its finances effectively to deliver its strategic priorities and securing sound financial health;
- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people;
- promoting and demonstrating the principles and values of good governance; and
- managing its risks and maintaining a sound system of internal control.

### **Delay in certification of completion of the audit**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements or a significant effect on the matters which are the subject of my conclusion on the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Paul King, Officer of the Audit Commission

Atlantic Business Centres, Lyttleton House, 64 Broomfield Rd, Chelmsford, Essex

CM1 1SW

September 2010

## Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4:

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Creditors	Removal of the creditor in respect of the Assize House Trust Fund			1,314	
Cash and Bank					501
Interest payable			3		
Income and Expenditure Account (below Service Expenditure Analysis (SEA))			810		
Creditors - receipts in advance	Non-inclusion of Area Based Grant as a non-attributable grant in the Income and Expenditure Account			11	
Income and Expenditure (non-attributable government grant)			45		
Income and Expenditure Account (SEA -Environment, Cultural and Planning Services income)		34			
Provisions	Write-back of provisions			217	

		Income and Expenditure Account		Balance sheet	
Income and Expenditure Account (SEA unknown)	that do not comply with FRS 12 (Accounting for Provisions, Contingent Assets and Contingent Liabilities)		217		
Income and Expenditure Account (Pensions Costs and Expected Returns on Pensions Assets)	Incorrect valuation report from Actuary used	283			
Liability relating to defined pension schemes					283
Statement of Movement on the General Fund Balance (STMGFB)			283		
Pensions Reserve				283	
Collection Fund Adjustment Account (CFAA)	Establishment of the CFAA as a prior period adjustment and in-year application of the CFAA			85	158
Collection Fund				1,055	462
Debtors					520
Creditors				499	499
Income and Expenditure Account - income from collection fund		85	37		
STMGFB		37	85		
Income and Expenditure Account	Correction of items		25		

		Income and Expenditure Account		Balance sheet	
Expenditure Account (SEA income)	recorded within the incorrect accounting year (2009/10) but included on the bank reconciliation.				
Income and Expenditure Account (SEA Expenditure)		4			
Cash and Bank				21	
Income and Expenditure Statement (SEA income)	Correction of items recorded within the incorrect accounting year (2008/09) but included on the bank reconciliation.		16		
Income and Expenditure Account (SEA Expenditure)		11			
Cash and Bank				5	
Income and Expenditure Account - SEA Environment, Cultural and Planning Expenditure	Income incorrectly netted off expenditure.	202			
Income and Expenditure Account - SEA Environment, Cultural and Planning Income			202		
Creditors	Over-accrual of Saltash creditor			237	
HRA repairs and maintenance			237		
Creditors	Under-accrual of interest payments on pooling of housing capital receipts				23
Pooling of Housing Capital Receipts		23	43		
Interest payable		43			
Income and	Write back of government		631		

		Income and Expenditure Account	Balance sheet	
Expenditure Account	grants deferred presently treated as RIA where no continuing justification remains			
Creditors - receipts in advance			631	
Debtors - HRA arrears	Correction of housing RIA's that have been incorrectly included in debtors			75
Creditors - RIA			75	
Creditors	Correction of		85	
Long term borrowing	<ul style="list-style-type: none"> <li>■ financial liability carrying amounts; and</li> <li>■ the application of overhanging premiums and discounts.</li> </ul>			85
Income and Expenditure Account - Interest receivable		9		
FIAA			9	
Income and Expenditure Account - Interest payable (of which £21k is HRA (see below))		99		
STMGFB (of which £21k is HRA (see below))		99		
HRA amortised premiums and discounts		21		
STMHRA		21		
Fixed assets - other land and buildings additions	Removal of capital expenditure that does not meet the requirements for capitalisation.			42
Income and Expenditure Account - SEA expenditure		42		
Fixed assets - other land and buildings impairment			42	

		Income and Expenditure Account		Balance sheet	
Income and Expenditure Account - SEA income		42			
STMGFB		42			
Capital Adjustment Account (CAA)				42	
Fixed Assets - VPE depreciation	Incorrect application of depreciation policy				8
Income and Expenditure Account - SEA expenditure		8			
STMGFB			8		
CAA				8	
Debtors (bad debt provision)	The Council have reassessed the prudence of their bad debt provision.				153
HRA		116			
Income and Expenditure Account – SEA expenditure		37			
STMGFB	Correction of a mis-applied grant from Essex County Council which has been deferred.		131		
Useable Capital Receipts				131	
TOTAL (GROSS)		1,066	2,923	4,708	2,851
TOTAL (NET)			1,867		1,857

## Appendix 3 Unadjusted misstatements in the accounts

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. If you decide not to amend, please tell us why in the representation letter. If you believe the affect 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.

Table 5:

Description of error	Accounts affected	Value of error £'000
I was unable to obtain sufficient appropriate evidence to establish the nature of a receipt in advance in relation to the playing fields and open areas surrounding the Nightingale Centre, thus I am unable to gain assurance that it is correctly accounted for.	Creditors - receipts in advance	850
Testing a sample of debtors identified cases where <ul style="list-style-type: none"> <li>■ the bad debt provision had been ascribed to debtors that had paid in full post year end; and</li> <li>■ the bad debt provision provided against some items that were not in accordance with the bad debt provision policy.</li> </ul>	Debtors	98 (estimate based on extrapolation)
Capital expenditure in respect of Council Dwellings does not agree to the supporting documentation. This is owing to the unsupported allocation methodology adopted.	Fixed assets - Council Dwellings - additions	83 (estimate based on extrapolation)
I was unable to obtain sufficient appropriate evidence to support the commutation adjustment figure which was used in the capital financing calculations. This affects entries in the accounts where the Minimum Revenue Provision (MRP) is utilised.	Statement of Movement on the General Fund Balance	127

## Appendix 4 – Request for a letter of representation

### Our reference

21 September 2010

---

Peter McKenzie  
Head of Resources  
Brentwood Borough Council  
Brentwood Town Hall  
Ingrave Road  
Brentwood  
Essex  
CM15 8AY

---

Dear Peter

---

2009/10 Financial Statements Audit - Request for a Letter of Representation

---

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects Councils and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following:

### **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, United Kingdom Generally Accepted Accounting Practice and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed 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 as follows;

reason 1 etc;

reason 2

### **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 Council and Committee 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:

- 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 fixed asset valuation and impairment, I confirm the appropriateness of the valuation method.

### **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. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

### **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 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.

If adoption of the financial statements and the representation are on the same day this paragraph is not required.

**Specific representations**

Pension Fund move from Retail Price Index to Consumer Price Index for future public sector pension increases:

- I confirm that the profile for Brentwood's membership of the Pension Fund is not inconsistent with the overall pension fund member profile giving rise to the estimated reduction of Employers FRS 17 liabilities (6-8%).

Signed on behalf of Brentwood Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2010.

Peter McKenzie, Head of Resources

28 September 2010

## Appendix 5 – Value for money criteria

Key line of enquiry (KLOE)	Met	Theme assessment
<b>Managing finances</b>		
Planning for financial health	No	<p><b>Planning for financial health</b></p> <p>Whilst the level of general fund balances at 31 March 2010 has increased, the balance sheet at that date shows that the Council has weak financial standing because the Council has little short term liquid resources other than debtors and significant long term liabilities, namely the PWLB borrowing, which following re-scheduling means that £5 million will be due for repayment in two years time. The Council has also liquidated its short term investments during 2009/10, so that they are now nil, compared to £6.25 million in the restated 2008/09 balance sheet. Consequently there is a risk that the Council has insufficient liquid resources to meet current financial commitments.</p> <p>Financial and operational performance monitoring are not linked and it will be a long time before this is likely to occur given the inadequacy of information systems. The Council has had significant failings in its financial planning and this is implicitly acknowledged by the decision to defer revision of the medium term financial strategy (MTFS) until Autumn 2010. The Council decided not to revise the MTFS in 2009/10 because of their problems with budget setting and monitoring in 2009/10.</p>
Understanding costs and achieving efficiencies	Yes	
Financial reporting	No	

**Key line of enquiry  
(KLOE)****Met****Theme assessment**

In response to a projected overspend for 2009/10 the Council revised its budget and ceased all 'non essential' expenditure; however there was still an 'underlying' year end overspend of £465,000, although the outturn for the year was a surplus due to the late receipt of an unplanned VAT refund of some £1.415 million. This is the result of a windfall as opposed to strong financial management.

**Understanding costs and achieving efficiencies**

The Council can demonstrate that it has made efficiency and cost savings in 2009/10 in response to identified financial problems.

**Financial reporting**

The 2009/10 accounts have received a qualified 'except for' opinion, as set out elsewhere in this report, notwithstanding that this is a significant improvement on the disclaimer of audit opinion in 2008/09. The Council have put a significant amount of effort into producing an auditable set of accounts in 2009/10, and their performance shows significant improvement, however the Council need to continue this journey of improvement through training the Finance team and keeping up to date with accounting standards.

Budget monitoring during 2009/10 was ineffective and there were significant variations in forecast outturn during the year, for example in September 2009 the Council reported a £768,000 overspend, in October 2009 this was revised to a £367,000 under-spend and in January 2010 it was reported that the revised forecast was a £465,000 overspend. This reflected a budget monitoring system that was not robust.

KLOE	Met	Theme assessment
<b>Governing the business</b>		
Commissioning and procurement	Yes	<p><b>Commissioning and procurement</b></p> <p>Brentwood uses partnership working to provide capacity in key areas such as communications, planning and internal audit.</p>
Use of information	Yes	<p>Local people play a key role in Council decisions around the provision, procurement and commissioning of services.</p>
Good governance	No	<p>Procurement remains an area for improvement, but there is some evidence that the Council is starting to look at service re-design and different ways of delivering services in some areas and joint procurement arrangements with partners are delivering results.</p>
Risk management and internal control	No	<p><b>Use of information</b></p> <p>The Council has made improvements in their data quality arrangements. IT security has been improved and a new performance management and monitoring system has been introduced.</p> <p>Some concerns remain over Performance Indicator (PI) accuracy however the Council has taken action to address this issue for example workshops to train staff and increase their awareness.</p> <p><b>Good governance</b></p> <p>Whilst the Council generally meets the basic principles of good governance, there are weaknesses in partnership governance arrangements identified by Internal Audit. Internal Audit's review found that during 2009/10 the Council did not have a Strategic Partnership Policy in place and there were no formal partnership governance arrangements. Partnership Agreements and Terms of Reference were not in place for all partnerships with the Council. The Council's partnerships were not subject to regular review. There was no complete and up to date record of all partnerships and the records that did exist did not contain sufficient information.</p>

### Risk Management and Internal Control

Effective risk management is still emerging. The Council is improving its approach to risk management however it is yet to be fully embedded within the organisation. There are no risk management arrangements in place for partnerships.

Basic control weaknesses continued during 2009/10 for example a lack of regular reconciliation from the feeder systems to the general ledger; journals which are not authorised or supported; and a lack of retained documentation and evidence. Internal Audit issued a limited opinion on the system of internal control at the Council and issued the following opinions on their audits:

- 3 areas received full assurance;
- 12 areas received limited assurance; and
- 3 areas received no assurance.

### Managing resources

Natural resources

Yes

### Natural Resources

Strategic asset management

N/A

Workforce

Yes

The Council recognises its environmental responsibilities however it is still very early in the planning process, for example no targets have been set to demonstrate a better use of environmental resources. Environmental factors were not fully integrated into service planning for 2010/11. However the Council is gaining an understanding of its use of natural resources for example departments are monitoring their energy usage on a monthly basis. The Council is putting in place some practical measures to improve its use of natural resources such as recycling its own green waste.

**Workforce**

Work force planning is improving with workforce issues being built into project management and a new process to integrate workforce and service plans is being introduced. The organisational culture is changing and there is better communication between officers and members with less silo working across the Council. Capacity is being created in key corporate areas however there is still a reliance on temporary staff. There is an improved approach to equality and diversity with strategies being developed; clear leadership from member champions and training for both officers and members.

---