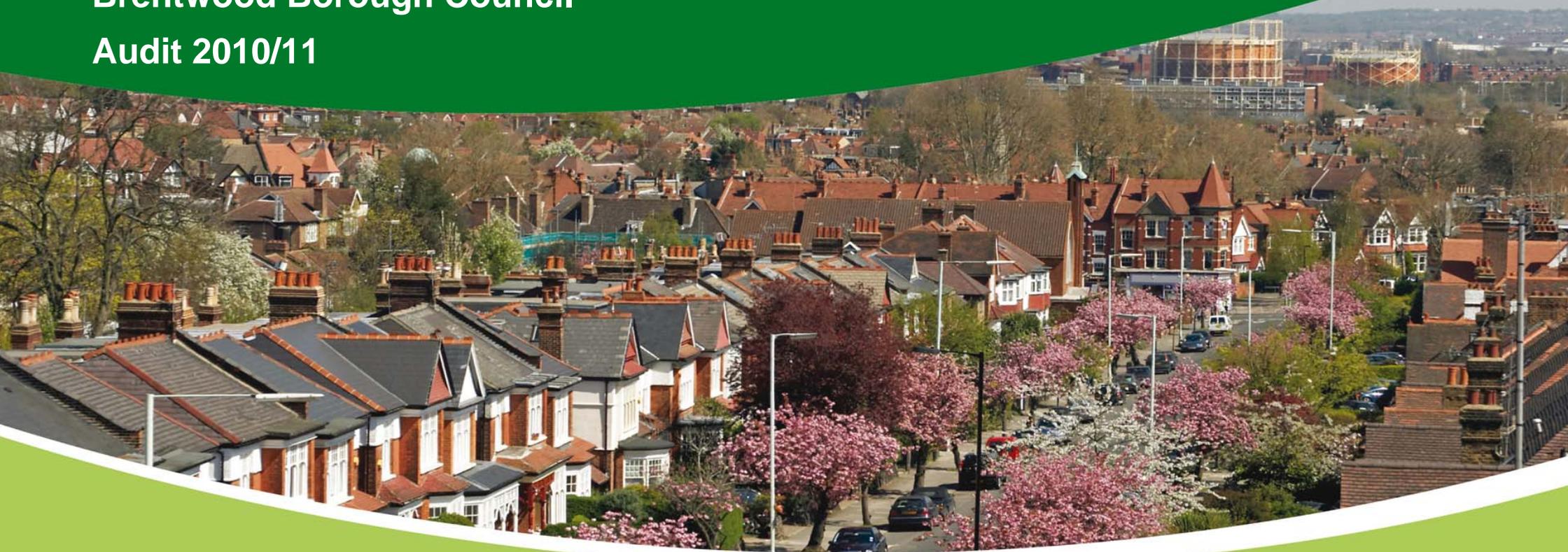


Final Annual Governance Report

Brentwood Borough Council

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It updates the findings in my interim Annual Governance Report presented to the Audit Committee on 25 October 2011.

It includes the messages arising from my audit of your financial statements, but does not repeat the detailed findings or recommendations in the interim Annual Governance Report which is attached for reference at Appendix 4. The report also updates the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	Qualified (‘Except for’)
Proper arrangements to secure value for money	Unqualified

Audit opinion and financial statements

Opinion

I plan to issue an audit report included a qualified ‘except for’ opinion on the financial statements. As reported in my interim Annual Governance Report (AGR), the qualification arises from the nature of my opinion on the 2008/09 financial statements. Because I issued a disclaimer of opinion on these accounts, I do not have full assurance regarding the

accuracy of the comparative balances as at 1 April 2009 and the comparative income and expenditure for 2009/10 as shown in the 2010/11 statements.

The qualified ‘except for’ opinion therefore relates to historical issues previously reported. There are no other issues arising from my audit of the 2010/11 statements which give rise to a further qualification on my opinion for those statements. Appendix 1 contains a copy of my draft report.

Key issues

The move to International Financial Reporting Standards (IFRS) has been particularly challenging for the Council. However, the extent of the challenge is reflected in the significant number of other authorities that failed to meet the statutory deadline of 30 September for publishing their audited accounts. There has also been an impact on quality, with a

significant increase in the number of bodies needing to make material accounts adjustments following the audit.

As at 20 October 2011, my interim AGR highlighted the reasons for the delay in completing the audit, the areas where much work remained to be completed and issues which still needed to be resolved. The majority of these have now been completed. Subject to clearing some final outstanding matters and following member approval of the revised accounts and receipt of the letter of representation, I propose to issue my opinion on 14 February 2012.

The accounts provided on 29 June 2011 were not of the expected standard as they were not in the correct format or IFRS-compliant. There were disclosure notes that were missing or incomplete and numerous other disclosure and qualitative errors. They also contained many internal inconsistencies and numerical errors.

Impact of changes to the financial statements on financial position

The need to amend the financial statements has resulted in substantial changes to the figures within, and the presentation of, the financial statements. The cumulative impact of all agreed adjustments is to reduce the balance on the Council's General Fund by £340,000 from £4.422 million to £4.078 million. Nevertheless, this later figure still represents an increase in General Fund balances from £3,743 at the start of the year

Adjusted misstatements

The Movement in Reserves Statement (MIRS), Cash Flow Statement and associated notes were incorrect and contained material balancing figures. These statements and notes have needed to be significantly reworked. However, this has not led to any impact on reserves and has mainly been technical accounting adjustments.

There were also significant issues identified with the Collection Fund resulting from the lack of understanding on how to compile the detailed entries to support the Collection Fund account. This also affected figures in the Balance Sheet and Comprehensive Income and Expenditure Statement (CIES). There remains an uncertainty of £290,000 within the Collection Fund which has not been resolved, but this is not material.

A number of changes were required to the 2010/11 financial statements and their comparative figures to correctly account for IFRS. These were mainly due to the treatment of:

- Council as lessor – the information provided was incomplete and we identified additional assets where the Council is a lessor;
- investment properties – we identified assets which had been wrongly classified as investment properties rather than operational properties, which require different valuations and accounting treatments;
- grant accounting – the requirements to consider conditions and restrictions applicable to grants had not been undertaken;
- Council as lessee – finance lease calculations were incorrect;
- restatement for IFRS compliant opening balances; and
- other non trivial, non material errors for misclassification of transactions.

In addition, I identified three material misstatements in the 2010/11 core financial statements with a total value of £9.753 million, two of which related to incorrect accounting treatment under IFRS from previous years. There is no impact on the level of reserves as a result of these amendments. They related to:

- re-classification of long-term borrowing as short-term borrowing (£2.657 million);
- reversal of impairment of the Brentwood Leisure Centre following reclassification of the lease and removing it from the accounts in 2008/09 (£2.077 million); and

reversal of impairments previously charged to the CIES in 2009/10 on the upward revaluation of the Council's assets over which we do not have audit assurance (£5.019 million).

Appendix 2 sets out the details of these errors and other non material, but non trivial errors. Many errors were due to the workings of the Council's financial ledger being complex and difficult to understand.

I also identified a significant number of amendments which were needed to the notes to the accounts, either because of the issues identified above or because the notes were not originally IFRS compliant. The majority of notes have been amended either in terms of disclosure or amounts.

Unadjusted errors or uncertainties

I also identified eight non-trivial errors and uncertainties which management have decided not to amend. Details are set out in Appendix 3. I ask you to consider whether the accounts should be amended for these error and uncertainties. If you decide not to do so, please tell me why in the representation letter. If you believe the effect of the error or uncertainty is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors and uncertainties to the representation letter.

Minimum Revenue Provision

The Council are required to calculate a Minimum Revenue Provision (MRP), which is the minimum amount that should be 'set aside' from revenue to fund borrowing. In 2009/10 my review of the Council's Housing Subsidy claim identified the need for the Council to calculate the value of their HRA Capital Financing Requirement (CFR) and a figure for the 2003/04 opening CFR was agreed with the Department. Calculations for MRP were then able to be determined for subsequent years.

My review identified that the Council has set aside more than the minimum amount required by statute. When this was introduced in 2002/03, no formal decision was made by the Council on the level of set aside. Based on a cumulative formula had the Council provided only the minimum required over the subsequent years, then £1.269 million less of revenue balances would have been used. I would ask for confirmation in the letter of representation that the amount set aside for MRP in excess of the minimum required is voluntary set aside.

Single status review

The Council have not yet undertaken their single status review which was due to be completed by 1 April 2007. However, an implementation plan has now been approved and is due for completion by July 2012.

Other accounting Issues

Since my interim AGR, I have received further versions of the accounts incorporating many of the required changes. A final version of the accounts incorporating all agreed adjustments is due to be approved by the Audit Committee on 13 February 2012.

I highlighted a number of qualitative issues in my interim AGR and made some recommendations on how the Council could address the weaknesses set out in the report. An action plan containing the Council's response was considered by the Audit Committee on 17 January 2012.

Audit fee

As reported in the interim AGR, I reported that I would need to charge a significant additional audit fee on completion of the audit. The additional time it has taken since then to resolve the outstanding issues and prepare a set of fully IFRS compliant accounts will again increase the amount of fee I will need to charge. I will discuss and agree the fee with

the Managing Director following completion of the audit and will report it to you through my Annual Audit Letter.

Value for money

I anticipate issuing an unqualified VFM Conclusion. This represents an improvement over the qualified 'adverse' conclusion that I gave in respect of the Council's arrangements in 2009/10.

I have substantially completed my work on value for money. In my interim AGR I noted that my VFM conclusion was provisional as I would need to consider the impact of the final version of the financial statements. In particular, the impact of any significant changes to the Council's financial performance in 2010/11 and the Council's financial position (including the level of balances and reserves).

My findings in two areas since the interim AGR are relevant to my further consideration:

- the cumulative impact of all agreed adjustments is to reduce general fund balances by £340,000, then this would support an unqualified VFM conclusion; and
- the setting aside of £1.259 million in MRP above the minimum level required by statute.

My unqualified VFM conclusion takes account of the above issues.

Certification of the completion of the audit

The audit can not be formally concluded and an audit certificate issued until I can complete my work on WGA..

In addition, a member of the public has asked questions about the Council's accounts. I am currently considering these questions in the context of my responsibilities as the Council's appointed auditor and the appropriate response to these questions. This may also affect the issue of the certificate of audit completion.

I am satisfied that these matters do not have a material affect on the financial statements or a significant impact on my value for money conclusion

Recommendations

R1 The Council needs to progress its single status review, evaluation the findings and implement the outcome as a matter of priority.

R2 To reduce number of issues for the 2011/12 accounts, review and revision of the accounting system should be undertaken between now and their preparation.

Before I complete my audit

I confirm to you

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

Independence

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

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2). I will provide an update if needed at the Audit Committee as I am still awaiting for responses from officer(s) to finalise the adjustments required;
 - Either agree to adjust the errors in the financial statements which management has declined to amend or set out the reasons for not amending the errors (Appendix 3). I will provide an update if needed at the Audit Committee as I am still awaiting for responses from officer(s) to finalise the adjustments required; and
 - approve the letter of representation, to be provided once my audit is complete, on behalf of the Council before I issue my opinion and conclusion.
-

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRENTWOOD BOROUGH COUNCIL

Opinion on the Authority accounting statements

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

This report is made solely to the members of Brentwood Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Resources and auditor

As explained more fully in the Statement of the Head of Resources' Responsibilities, the Head of Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Basis for qualified opinion on accounting statements

The Authority had restated its financial position as at 31 March 2009 and its financial performance for the year ended 31 March 2009. However, with the exception of those items relating to the Housing Revenue Account and the Collection Fund, I have been unable to obtain sufficient appropriate evidence to support the restated financial position and financial performance for the year ended 31 March 2009 as adequate accounting records were not available.

In consequence, I have been unable to obtain sufficient appropriate evidence concerning:

- The attribution of income and expenditure to the financial years ended 31 March 2009 and 31 March 2010;
- The net cash outflow from operating activities reported in the Cashflow Statement and disclosed in Note 25 to the accounting statements; and
- The purchase of fixed assets reported in the Cashflow Statement.

There were no other satisfactory audit procedures which I could have adopted to confirm these balances, amounts and disclosures.

Qualified opinion on accounting statements arising from limitation of audit scope

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accounting statements:

- give a true and fair view of the state of Brentwood Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

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

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

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Brentwood Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

Delay in certification of completion of the audit

The audit can not be formally concluded and an audit certificate issued until I can complete my work on Whole of Government Accounts and 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 affect on the financial statements or a significant impact on my value for money conclusion.

Paul King

Officer of the Audit Commission

Audit Commission

3rd Floor

Eastbrook

Shaftesbury Road

Cambridge

CB2 8BF

14 February 2012

Appendix 2 – Amendments to the draft financial statements

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

Adjustments to 2010/11 year	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatement				
Long-term borrowing to be classified as short-term borrowing			2,657	2,657
Various reclassifications of income & expenditure	717	717		
Various adjustments to collection fund	364	321	1,095	1,095
Ten other non-material adjustments for incorrect accounting treatment	220	381	661	661
Comparative amounts on the Balance Sheet as at 1 April 2010 were incorrectly stated for IFRS:				
<ul style="list-style-type: none"> ■ reversal of impairment of Brentwood Leisure Centre following reclassification of the lease and removing it from the accounts; 	288	288	2,077	2,077
<ul style="list-style-type: none"> ■ an adjustment has been made for 2010/11 for the reversal of impairments previously charged to the CIES in 09/10 on the upward revaluation of the Council's assets over which we have no audit assurance. Assets have been subsequently revalued and correct values 	5,019			5,019

Adjustments to 2010/11 year	Comprehensive income and expenditure statement		Balance sheet	
are included in the accounts; and				
■ seventeen other errors for the impact of IFRS.	568	775	595	480

2009/10 comparative balances	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatement				
Comparative amounts on the Balance Sheet as at 1 April 2010 were incorrectly stated for IFRS:				
■ an adjustment has been made for 2009/10 for the reversal of impairments previously charged to the CIES in 08/09 on the upward revaluation of the Council's assets over which we have no audit assurance. Assets have been subsequently revalued and correct values are included in the accounts; and	3,813			3,813
■ twenty three other errors for the impact of IFRS.	1,659	1,659	1,631	1,755

2008/09 comparative balances	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatement				
Comparative amounts on the Balance Sheet as at 1 April 2009 were incorrectly stated for IFRS:				
■ reclassification of the lease relating to Brentwood Leisure Centre			7,495	7,495

2008/09 comparative balances**Comprehensive income and
expenditure statement****Balance sheet**

removing it from the accounts. This is a technical accounting change required under IFRS accounting standards even though the Council still retains ownership;

- reclassification of investment properties to other land and buildings; and
- six other errors for the impact of IFRS.

1,803

1,803

1,450

1,450

Appendix 3 – Unadjusted misstatements to the financial statements

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

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

	Comprehensive income and expenditure statement	Balance sheet
Unadjusted misstatement	£000s	£000s
Review of HRA Income identified that the 2010/11 Rent Year ran from 29/03/10 to 03/04/11 and consequently contained a period 29/3/10 to 31/3/10 that should have been accrued into 2009/10 income. Consequently, there are a number of opening balance sheet and Income and Expenditure positions that are misstated.	HRA 59 GF 69	10
Infrastructure Assets incorrectly include an IT Server of NBV £128,000 as at 31/03/2011 that should be classified as Property, Plant & Equipment		128

	Comprehensive income and expenditure statement	Balance sheet
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Assets. There is no impact on the accounts other than a change of classification within Fixed Assets.

Other Land and Buildings Assets correctly contain the Training Centre. However, the asset was not revalued at year end in accordance with the valuers instructions and is presently being carried at a value £27k greater than their valuation. Therefore, fixed assets are overstated.

27

	Comprehensive income and expenditure statement	Balance sheet
--	--	---------------

Unadjusted uncertainty

£000s

£000s

In 2009/10 documentary evidence supporting the full value of HRA dwelling addition was not available resulting in an extrapolated potential overstatement of HRA dwellings of £83k.

As HRA dwelling valuations are uplifted by a % in years between full beacon valuations, this potential error will persist and be further exacerbated within the account until the next full beacon valuation is undertaken in 2014.

83 (extrapolated)

Detailed transaction listings supporting the income balances disclosed within the accounts contain a number of negative values that potentially represent misclassified expenditure.

Amendments to the accounts have been made for large value items or where specific reasons and classes of transaction could be identified. However, there remain a number of smaller values items totalling £254k, where it has not been possible to determine the exact nature of the negative item and therefore the relevant accounts amendment.

254

Detailed transaction listings supporting the expenditure balances disclosed within the accounts contain a number of positive values that potentially

435

represent misclassified income.

Amendments to the accounts have been made for large value items or where specific reasons / classes of transaction could be identified. However, there remain a number of smaller values items totalling £435k, where it has not been possible to determine the exact nature of the negative item and therefore the relevant accounts amendment.

Long Term Debtors contain loans totalling £13k made to Ingatestone and Frying Community Trust in the 1990s with a contracted annual repayment of principal of £2,500 + interest at c9%.

Records show that no payments have been received or requested from the Community Trust since 2006/07 and that there is a value mis-match in the respective parties' accounts as to the sum remaining payable to the Council. Potentially linked to this matter is documentation that suggests that the Council are renting land from the Community Trust at a broadly similar amount, but have never made a payment to the Community Trust. As no conclusive evidence as to the collectability of the debt has been provided, the balance is considered uncertain.

Detailed transaction listings supporting the Non Distributed Costs Expenditure balance disclosed within the accounts contain an item of £13k representing the write off of all 'unreconciled' or not readily identifiable items within the March 2011 bank reconciliation to expenditure.

As the items written off represent unreconciled or not readily identifiable items it is not clear that these items have been correctly taken to expenditure. Extrapolation of this error results in expenditure being potentially overstated by £77k

Collection Fund and in particular Collection Fund Balance Sheet accounting initially presented for audit contained a significant number of errors due to it being based on 'rebuilt' opening positions using incorrect

13

77 (extrapolated)

290

base data, rather than the positions contained within the ledger and audited in 2009/10.

In determining the final positions disclosed in the 2010/11 financial statements from first principles and reliable base data and processing appropriate adjustments to the ledger to achieve these values, officers have been unable to determine the full correcting entries required due to the number of adjusting journals processed earlier in the year.

Consequently, an 'unknown' credit balance of £290k has arisen and for which the appropriate correct positioning within the accounts has yet to be determined.

This balance has been taken to Creditors within the accounts

General review of Fixed Asset additions in 2009/10 identified a number of small variances between the supporting documentation provided as evidence for the addition and the value capitalised in the Fixed Asset Register, this mainly being due to the allocation of miscellaneous costs across a number of additions in the FAR.

Whilst we have been provided with the rationale and methodology upon which these costs have been allocated, we have not been able to replicate the allocations made and arrive at the figures capitalised to each asset, the extrapolated difference being £82,128.

Consequently, uncertainty exists in respect of this value of Fixed Asset additions.

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Appendix 4 – Interim Annual Governance Report

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