

Annual governance report

Brentwood Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 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

As at 21 September, I expect to issue an unqualified audit opinion. I still need to receive a final set of accounts, satisfactorily clear some outstanding matters and undertake my final review. Should any further matters arise in concluding the outstanding work that I need to report, I will raise and agree the way forward with the Chair of the Audit Committee and Head of Corporate Finance.

The draft 2011/12 financial statements presented for audit were complete, received by the deadline; included all required notes and figures in the format required by current legislation. The Council has worked hard to improve the standard of the accounts and quality of working papers for 2011/12. This is reflected in my being likely to issue my final report and audit opinion by the 30 September 2012 deadline.

I identified three material misstatements in the accounts as well as disclosure and presentational errors. The Council has amended for these and there has been no impact on the general fund balance for these corrected errors.

My audit work also identified eight non material (but non trivial) errors and uncertainties that the Council has decided not to amend, these are detailed in Appendix 2. There were also a number of disclosure errors in the notes to the accounts which management decided not to adjust. The extrapolated impact of these errors is not material.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Council continues to improve its financial governance, planning and control arrangements. While work continues on improving budget setting and controls, internal system controls and cash flow monitoring, these current arrangements do not impact adversely on the VFM conclusion in respect of financial resilience.

The Council identifies its key objectives and how it can achieve decreases in costs, while improving productivity.

Certificate

I still have to complete my work on the Whole of Government Accounts (WGA) consolidation pack. I am not able to issue my certificate of audit completion until I have issued my WGA report. I expect to complete this work by the deadline of 5 October 2012.

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 external auditor and the appropriate responses 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 significant impact on my value for money conclusion.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report and at Appendix 3;
- consider whether to adjust the errors and uncertainties in the financial statement which management does not propose to amend or set out the reasons for not amending the errors (appendix 2);
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and value for money conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

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

As at 21 September, I expect to issue an unqualified audit opinion. I have substantially completed my work, however I still need to:

- receive a final set of accounts and agree all changes and new notes; and
- undertake my final review.

Should any further matters arise in concluding the outstanding work that I need to report, I will raise and agree the way forward with the Chair of the Audit Committee and Head of Corporate Finance.

In my 2010/11 Annual Governance Report (AGR), I raised numerous issues arising from my audit. The changes arising from the introduction of International Financial Reporting Standards (IFRS) impacted on both the Council's preparation and my audit of the financial statements, which delayed the issue of my opinion.

The draft 2011/12 financial statements presented for audit were complete, received by the deadline; included all required notes and figures in the format required by current legislation. The accounts were supported by working papers. Whilst not all of these were provided at the start of my audit work commencing on 2 July 2012, there was a significant improvement in the quality of working papers produced.

The Council has worked hard to improve the standard of the accounts and working papers for 2011/12, which has supported my audit work.

Examples of improvements include:

- working papers were more easily agreed to the general ledger and the draft accounts;
- improved quality control and internal review of the working papers and the draft accounts;

- 'pre-cleansing' of transaction listings was the single improvement with the most impact for this year. This resulted in the Council identifying issues prior to the preparation of the financial statements and hence correcting them before presentation for audit. This also enabled substantive audit work to operate in a much more efficient and effective manner.

The Council recognises that more improvements could be made to smooth the accounts production and audit work. I will continue to work with the Council to support this.

Uncorrected errors

My audit work found eight non-trivial, non-material errors and uncertainties affecting the core financial statements. Management have decided not to adjust the financial statements for these errors and uncertainties. I have set these out in Appendix 2. I ask you to consider whether to adjust for these errors and uncertainties. If you decide to 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 attach a schedule of the uncorrected errors and uncertainties to the representation letter.

There were also a number of non-trivial, non-material disclosure errors in the notes to the accounts which management decided not to adjust, which are set out in Appendix 2. However none of these, if not amended, would affect my overall opinion on the accounts. I also identified non-material errors relating to Note 15 on Financial Instruments and Note 31 on Related Party Transactions which are outlined in more detailed in 'other matters' below.

Corrected errors

The draft financial statements presented for audit contained three material errors in the core financial statements with a total value of £5.636 million. I have set these out in Appendix 3. These errors were to correct the accounting treatment for:

- incorrect calculation and accounting for revaluation of assets;
- merging of assets; and
- restatement of community assets.

This had the overall effect of reducing net expenditure on the CIES by £1.4 million. There has been no impact on the general fund balance for these errors.

One material change was made the note 15 Financial Instruments. This was to include council tenant rents of £1.098 million for 2011/12 (£0.714 million in 2010/11), as required by the Code.

Management have also amended for several non-material disclosure and presentational errors in the accounts.

I have made the following recommendations to improve the accounts process.

Recommendations

- R1** Continue to develop the improved arrangements put in place to deliver good quality, timely accounts and working papers.
- R2** Address the weakness identified in the Fixed Asset Register to reduce the likelihood of errors in the accounts.
- R3** Review the treatment of those errors and disclosures reported as unadjusted and whether any changes should be made for the 2012/13 accounts.

Significant risks and my findings

I reported to you in my Audit Plan presented to the Audit Committee in May 2012, the significant risks that I identified relevant to my audit of your financial statements. In Table 1, I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>FMS ledger</p> <p>The Council's FMS ledger continues to create difficulties in producing cleansed and reliable information for each of the income and expenditure service lines within the CIES and HRA. This issue led to uncertainties in the 2010/11 accounts and significant time and resources taken up 'cleansing' the data sufficiently to enable a valid population to be identified from which to select a sample of income and expenditure transactions.</p> <p>In addition recharging of corporate items to front-line services was done on a net basis and there was no documented recharging method.</p>	<p>The Council undertook early work to improve arrangements and review accounting practices.</p> <p>'Pre-cleansing' of transaction listings was the single improvement with the most impact for this year. This resulted in the Council identifying issues prior to the preparation of the financial statements and hence correcting them prior to presentation for audit. This also enabled substantive audit work to operate in a much more efficient and effective manner.</p>
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be effected through a one-off settlement payment to or from central government by 28</p>	<p>I have reviewed management's consideration of HRA reforms and the transactions required by the Authority. I have agreed the detail on the</p>

Risk

March 2012. This will adjust the HRA debt of the Authority.

Early modelling shows the Council will be obliged to take on a significantly higher level of debt in return for keeping council house rents in the future. Over the long term, the Council anticipates that it and residents are likely to benefit from the new arrangements, but there will be associated risks relating to debt repayment.

Because of the complexity, extent and timing of the HRA reform there is risk the financial statements will be materially misstated.

Other risks

Accounts closedown

There were issues identified with preparation of the 2010/11 accounts, the quality of the accounts and the quality of the working papers presented for audit.

The Council have drawn up a 'lessons learnt' paper that has highlighted improvements needed for the 2011/12 closedown process. A detailed closedown plan was also presented to the Audit Committee in March 2012. The Council have also commissioned resources from CIPFA to undertake a QA process on their accounts when produced. However, previous experience suggests this is still a risk for the Council.

In addition, accountancy staff are preparing for the move to the Shared Service from 1 July 2012, therefore there may be capacity issues during the closedown process.

Heritage Assets

The 2011/12 Code of Accounting Practice (the Code) adopts the requirements of Financial Reporting Standard (FRS) 30 Heritage Assets. A heritage asset is a tangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and kept principally for its contribution to knowledge and culture. The Council need

Finding

settlement payment or receipt to the DCLG notification.

My testing has not identified any significant issues to bring to your attention.

The accounts were produced on time and were significantly improved from last year.

The Council has worked hard to improve the standard of the accounts and working papers for 2011/12: including:

- working papers could be more easily agreed to the general ledger and the draft accounts;
- high level review of the working papers and the draft accounts was carried out;

The move to a Shared Service did not happen and therefore did not impact on the accounts production process.

I evaluated the management controls in place to recognise and value heritage assets. I undertook testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code.

No issues were identified.

Risk

to establish whether they hold any such assets, which is likely to include artwork, sculptures and museum collections.

There is a risk the Council may be unable to identify and account for all heritage assets as there have been issues in the past over assets being misclassified, valued incorrectly, or excluded from the balance sheet.

Changes in the Code of Accounting Practice (the Code)

The Council did not prepare enough for changes in the Code or for the introduction of IFRS in 2010/11. This led to material misstatements in the accounts.

Collection Fund

There were significant issues identified with the Collection Fund in 2010/11. This also affected figures in the Balance Sheet and CIES. There remained an uncertainty in the Collection Fund of £290,000 which was not resolved.

Single status

The Council have not yet completed its single status review. Single status reviews were originally due to be completed by 1 April 2007. However, an implementation plan has now been approved and is due for completion by July 2012.

Finding

Key issues from 2010/11 and new changes to the Code was covered as part of the accounts workshop that audit staff ran in March 2012 specifically for Brentwood Borough Council.

I reviewed the Council's assessment of key areas affected by IFRS. In particular the consideration of investment properties, grants and arrangements where this Council is lessor or lessee to ensure they continued to be accounted for correctly

I reviewed all new Code changes to ensure they were correctly applied in year.

No significant issues were identified.

I reviewed and agreed the Council's changes to the accounts.

The Council have still to complete its single status review.

The Council are disclosing this as a contingent liability in its accounts, which is reasonable given it has not implemented or started the consultation process.

Formal consultation is due to start in September 2012 with the results

Risk

Finding

being reported in December.

This will be reviewed again as part of the 2012/13 audit.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. I did not identify any significant weaknesses in internal control.

The Head of Internal Audit Opinion gave limited assurance on the system of internal control. However, it noted the improvements made and the positive direction of travel as evidenced by the number of improving internal controls and recommendations implemented. While no critical risk recommendations were made by Internal Audit, there were a number of major risk recommendations. In particular regarding budget setting and controls; risk management and insufficient documentation to support virements and journals.

As part of my audit, I also identified a number of areas for improvement and I will report these to officers in my opinion memo.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

Recommendation

R4 Implement all recommendations made by Internal Audit and monitor progress.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your consideration of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.

- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I set out the specific issues in the table below:

Table 2: **Other matters**

Issue	Finding
Financial instruments – Note 15	Deferred liabilities resulting from boundary change have been included in the note, totalling £0.674 million for 2010/11 and £0.646 million. In accordance with International Auditing Standard (IAS) 32 and the Code, a contractual right or obligation is required for a transaction to be classed as a financial instrument. The boundary change liability arises from a statutory provision and as such is not contractual.
Related party transactions – Note 31	I have evaluated the Authority’s arrangements for identifying and disclosing related parties within its financial statements. I have reviewed the disclosure in note 31 and found that it does not fully disclose all information required by IAS 24
Going Concern	<p>Those Charged With Governance (TCWG), which at Brentwood is the Audit Committee do not undertake a formal review of the Council’s going concern. While there is no requirement for TCWG within Local Authorities to under such an assessment, it is considered good practice for them to do so.</p> <p>Although the Council’s liquidity position has improved in comparison to prior years, TCWG should undertake such a review on an annual basis to assure themselves that the Council remains a viable entity and, if necessary, identify areas where the Committee may wish to focus their attention in the succeeding financial year.</p>
Accounting for pension strain	<p>Pension strain costs in the accounts have been treated as a post-employment benefit. Per IAS 19, the event giving rise to this pension strain obligation was the termination of employment and as such should be accounted for as a termination benefit and charged to the relevant service head expenditure.</p> <p>The impact of accounting for pension strain as a termination benefit rather than a post employment benefit is limited and the treatment has been adequately disclosed in the accounts. However, I am required to report the treatment adopted in my report.</p>

Whole of Government Accounts (WGA)

Alongside my work on the financial statements, I also review and report to the National Audit Office on your WGA return. As at 21 September, I have not yet completed the procedures specified by the National Audit Office. I expect to complete this work and issue my report by the 5 October 2012 deadline.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan presented to the Audit Committee in May 2012, I reported to you that I had not identified any significant risks that were relevant to my conclusion. However, I did report that I would:

- follow up recommendations made from my 2010/11 review;
- consider the value for money aspects of the HRA reform and debt restructuring, in particular, the appropriateness of the 30-year business plan, asset management strategy and borrowing strategy and repayments to CLG; and
- review the underlying liquidity position of the Council.

I have set out below my conclusion on the two criteria

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	I have assessed the Council against the characteristics of financial governance, financial planning and financial control. The Council continues to improve its financial governance, planning and control arrangements. The budget and the Medium Term Financial Plan (MTFP) are underpinned by the Corporate Strategy and effectively support the budget setting and control processes. However, a number of budget monitoring processes were not fully effective in 2011/12. Nevertheless, the outturn position on the draft statement of accounts shows a net deficit of

Criteria

Findings

£0.151 million, compared to the forecast surplus of £0.255 million at February 2012. The variance takes account of an unexpected VAT refund of £1.1 million and transfers to earmarked reserves of £1.850 million.

In addition, during 2011/12 cash flow forecasting was only undertaken at a basic level and arrangements could be strengthened.

The key issue underpinning the weakening of financial control was the impact of finance team's protracted closure of the 2010/11 statement of accounts. The Council responded to the lessons learned from this and significant improvements have been made to the 2011/12 accounts closure.

I have evaluated management's consideration of HRA reforms and the HRA Business Plan and the amendments to the Authority's Treasury Management Strategy. I have agreed the detail on the settlement payment to the DCLG notification and the associated guidance contained in LAAP Bulletin 92. The Council has tackled this major financial risk by drawing upon appropriate external expertise. It has considered the various Treasury Management options. Although my review has identified some changes to the overall detail of the 30 year financial plan these have not undermined the fundamental robustness of that plan based upon the Council's assumptions.

The Head of Internal Audit's for 2010/11 gave a limited assurance on the overall systems of internal control at the Council including risk management and budget monitoring and controls. However, it was noted that in reaching that opinion the Council has made significant improvements in trying to strengthen internal controls and embed risk management and corporate governance during 2011/12 and will continue this work during 2012/13 in order to improve the overall audit opinion.

While some improvements could be made, these would not impact negatively on the VFM conclusion in respect of financial resilience.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

I have assessed the Council against the characteristics of prioritising resources and improving efficiency and productivity. I found the Council identified its key objectives and how it can achieve decreases in costs, while improving productivity. A lot of work is being

Criteria	Findings
<p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>undertaken in this area and the Council are building on their Corporate Strategy with an extensive piece of work to develop its Visions and Priorities.</p> <p>This will form the basis of a reformat of the Council budgets to ensure they are clearly aligned to the key priorities.</p> <p>Further to this the Council are rating their current services looking at options as to how services could be delivered differently. This will inform the potential savings areas over the medium to long term.</p> <p>The Council has a number of partnership arrangements and strategies to better deliver services and during 2011/12 also developed a new approach to managing its assets.</p>

Recommendation
<p>R5 Continue to address the control weaknesses identified in the budgetary process.</p>
<p>R6 Continue to improve the Internal Control environment and embed risk management to gain at least substantial assurance across all key systems.</p>
<p>R7 Strengthen cash flow monitoring processes to ensure that the Council do not over commit themselves to or fail maximise all possible returns available through short term investment of cash surpluses, ensuring that the forecasts are updated regularly to better enable the reliability of the forecasts being made.</p>

Fees

I reported my planned audit fee in the Audit Plan presented to members in May 2012.

I will complete the audit within the planned fee. This represents a significant reduction in the total fee paid for the 2010/11 audit of £336,450

Table 4: Fees

	Scale fee 2011/12 (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)	Actual fee 2010/11 (£)
Audit	149,625	199,625	199,625	234,950
Claims and returns		87,171	87,171	101,500
Total		286,796	286,796	336,450

The Audit Commission has paid a rebate of £11,970 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £274,826.

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Authority financial statements

I have audited the financial statements of Brentwood Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Corporate Finance and auditor

As explained more fully in the Statement of the Head of Corporate Finance’s Responsibilities, the Head of Corporate Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Head of Corporate Finance; and the overall presentation of the financial statements. In addition, I read

all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Brentwood Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, 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 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack and my consideration of matters brought to my attention by local authority electors. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Paul King

District Auditor

3rd Floor
Eastbrook
Shaftesbury Road
Cambridge
CB2 8BF
XX September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Balance sheet		Statement of comprehensive income and expenditure	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
CIES – Service income	Income recharges incorrectly taken to expenditure			119	
CIES – Service expenditure					119
CIES – Service income	Donated assets incorrectly taken to the revaluation reserves				172
General Fund balance (MiRS)		172			
Capital Adjustment Account			172		
Revaluation Reserve		172			
Short term debtors	DWP housing benefits claim year end balance treated as separate components rather than a single item		557		
Short term creditors		557			
Fixed assets – dwellings	De-capitalisation of estimated capital expenditure not actual and subsequent adjustments to dwellings revaluation Actual error identified was £5,000. Extrapolated across the total population gives an estimated error of £409,000.	409	409		
Revaluation Reserve			409		
CIES – Service expenditure					409
Fixed assets – Net Book Value	Unsupported or partially supported assets		353		

		Balance sheet	Statement of comprehensive income and expenditure
Capital Adjustment Account	in respect of rights and obligations Actual error identified was £76,000. Extrapolated across the total population gives an estimated error of £353,000.	353	
CIES – Service income – HRA Short term debtors	Understatement of charges for services and facilities income and debtors due to use of assumptions in the amounts collected	188	188
CIES – Service income Short term debtors	Overstatement of income and debtors due to full value of invoices bridging the year end not being adjusted Actual error identified was £2,000. Extrapolated across the total population gives an estimated error of £363,000		363
CIES – Service income Short term debtors	Overstated income and debtors due to full value of invoices bridging year end not being adjusted Actual error identified was £669. Extrapolated across the total population gives an estimated error of £62,000)	62	62

The following misstatements relate to errors in the notes to the accounts, which I identified during my audit and management has decided not to adjust. I bring them to your attention to aid you in fulfilling your governance responsibilities.

- As required by the International Auditing Standards (IAS), Note 14 does not contain reference to Investment Properties being valued by a professional valuer.
- As required by the Code and IAS 32, boundary change deferred liabilities have not been excluded from Note 31 Financial Instruments.

- Material amounts for pension interest costs (£4.2 million) and expected returns (£3.1 million) have been netted off to £1.1 million in Note 10 reducing clarity to the reader.
- The signing convention between the cashflow and its associated notes is inconsistent with Note 20 cash and cash equivalents.
- Note 4 on material accounting estimates should include a section in respect of provisions. While provisions reported are not material, the amounts are determined by estimation techniques and could be material dependant on the quality of the estimation process.
- Footnote information to explain why 2011/12 distribution of prior year surpluses on the Collection Fund is zero was not provided.

Appendix 3 - Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Balance sheet		Statement of comprehensive income and expenditure	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Fixed assets - other land & buildings	Correction of:		805		
Fixed assets - surplus assets	■ Incorrect calculation and		34		
Fixed assets - dwellings	accounting for revaluation of	1,614	1,614		
General Fund balance (MiRS)	assets;	1,411			
Capital Adjustment Account	■ Merging of assets; and		1,792		
Revaluation Reserve	■ Restatement of community	2,611			
CIES - service expenditure	assets.				1,391

Appendix 4 – Draft letter of management representation

Brentwood Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of CLB, heads of service and officers of Brentwood Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

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

These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are as follows.

- reason 1 etc;
- reason 2]

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For financial liability and asset assumptions relating to the depreciation and valuation of assets, bad debt provision, contingent liabilities and provisions, year end accruals, pensions and financial instruments disclosures, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Other representations

I confirm I have disclosed details to you of all companies the Council either owned, or owned a share of, between 1 April 2011 and the current date. I have appropriately accounted for and disclosed such companies and the associated transactions in accordance with the requirements of the Code.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of X was made to correct a material misstatement in the prior period financial statements. This affects the comparative information of Y. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Brentwood Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 September 2012.

Signed

Name: Jo-Anne Ireland

Position: Head of Corporate Finance

Date: XX September 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Continue to develop the improved arrangements put in place to deliver good quality timely accounts and working papers.

Responsibility

Priority

Date

Comments

Recommendation 2

Address the weakness identified in the Fixed Asset Register to reduce the likelihood of errors in the accounts.

Responsibility

Priority

Date

Comments

Recommendation 3

Review the treatment of those errors and disclosures reported as unadjusted and whether any changes should be made for the 2012/13 accounts.

Responsibility

Priority

Date

Comments

Recommendation 4

Implement all recommendations made by Internal Audit and monitor progress.

Responsibility

Priority

Date

Comments

Recommendation 5

Continue to address the control weaknesses identified in the budgetary process.

Responsibility

Priority

Date

Comments

Recommendation 6

Continue to improve the Internal Control environment and embed risk management to gain at least substantial assurance across all key systems.

Responsibility

Priority

Date

Comments

Recommendation 7

Strengthen cash flow monitoring processes to ensure that the Council do not over commit themselves to or fail maximise all possible returns available through short term investment of cash surpluses, ensuring that the forecasts are updated regularly to better enable the reliability of the

forecasts being made.

Responsibility

Priority

Date

Comments

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- any third party.

