

**MINUTES OF THE AUDIT COMMITTEE**  
**Wednesday 18 June 2009 at 7.30 pm**

PRESENT: Councillor Cummins (Chair), with Councillors Butt and H M Patel.

**1. Declarations of Personal and Prejudicial Interests**

None declared.

**2. Deputations**

None.

**3. Minutes of the Previous Meeting – 4 March 2009**

RESOLVED:

that the minutes of the meeting held on 4 March 2009 be approved as an accurate record.

**4. Matters Arising**

None.

**5. Audit Commission – Update Report**

Members had before them a report setting out documents from the Audit Commission on the following:

- the main findings of the triennial review of Internal Audit
- an Audit Opinion Plan for the Council's 2008/09 Statement of Accounts
- an Audit Opinion Plan for Brent Pension Fund for 2008/09
- a report on the progress of work currently being planned or undertaken for the Council by the Audit Commission
- details of the fees for 2009/10.

Andrea White and Shahida Nasim attended on behalf of the Audit Commission. Shahida Nasim presented the main findings of the triennial audit and answered questions from members. She drew members' attention to the agreed action plan. Simon Lane (Head of Audit and Investigations) informed the Committee that improvements had been made in ensuring the proper arrangements for the implementation of recommendations. There were now reports on follow-up reviews, so that information could be gained on which services were good at implementing recommendations.

Asked how auditors distinguished between limited and substantial assurance, Simon Lane reported that, for example, there were seven instances of limited assurance for 2009/10, but that it was difficult to say which of those was near to substantial. Phil Lawson (Deloitte) informed the Committee that the level of assurance might depend to a certain extent on how recently an area had been audited. Where an area had been subject to a recent audit, it would be hoped that the level of assurance would be higher, since management should have implemented any recommendations previously raised, where weaknesses had

been highlighted. However, where an area had not been subject to audit before, or in recent years, weaknesses in the control environment might have developed. In addition, instances of limited assurance might not necessarily mean that there was a potential impact from the perspective of the authority's financial accounts. The assurance opinion was specific to the objectives of the area in question. While judgements on assurance were to a certain extent subjective, there were nevertheless defined criteria. He believed that the assessments were as structured as they could be, but needed to be considered in context.

Andrea White presented the Audit Opinion Plans, which set out risks that could have an impact on the work being undertaken by the Audit Commission, as well as specifying the assertions that underpinned the opinions. For the most part, the Audit Commission relied on underlying systems for information and the testing of assertions. Where this was not available, the Audit Commission would carry out additional testing at the year end. If further risks were identified, the Audit Commission would draw the Council's attention to them. For example, in the previous year, the issue of verifying accounting by foundation schools had been identified as a risk in view of the fact that the Council did not have underlying control. Other risks included the issue of payroll reconciliation, which was largely a result of migration from one system to another, and the impact of the economic climate on the value of the Council's assets. Andrea White confirmed that, once risks had been identified, the testing strategy was updated. The separate opinion plan for the Brent Pension Fund set out risks relevant to the fund.

Duncan McLeod (Director of Finance and Corporate Resources) informed the Committee that the items under discussion had arisen out of the previous audit. There had been no surprises, and work on the issues arising had been started prior to closing the 2008/09 accounts.

Asked about the risk relating to foundation schools, Simon Lane informed the Committee that, while foundation schools were required to send year-end audits to the Council, the concerns and risks related more to internal controls and the appropriateness and validity of expenditure.

Shahida Nasim presented the progress report and answered questions from members on work currently being planned or undertaken by the Audit Commission. The report included information setting out the fees for auditing the Council's accounts and the Brent Pension Fund accounts, as well as for the inspection audit relating to the Comprehensive Area Assessment (CAA). Andrea White reported that the fees were indicative, set in advance and subject to change. The level of fees depended on the nature of the organisation, its complexity and the level of risks identified. The proposed fees represented an increase of 1.25%, and took account of the 3% efficiency savings being made by the Audit Commission and passed on to clients.

**RESOLVED:**

that the report be noted.

**6. Final Internal Audit Progress Report 2008/09**

Simon Lane (Head of Audit and Investigations) presented the report and answered questions from members on the work of Internal Audit for the final quarter of the financial year, from January to March 2009, together with statistics for the whole year. He reported that 96% of planned work had been completed, with 61 final reports and 28 assurance opinions issued. Of the 28 opinions, 75% were judged to have substantial assurance, an improvement on the previous year. Work had also been carried out in relation to Brent Housing Partnership (BHP), reported separately to the Finance Committee. In addition, a total of 25 schools had been assessed on Financial Management Standard in Schools (FMSiS), with all 25 having passed. However, difficulties were anticipated in getting all primary schools through the FMSiS assessment by 2010. Customer satisfaction ratings had been good, and were used to measure performance.

RESOLVED:

that the report be noted.

**7. Internal Audit Annual Report 2008/09**

Members had before them a report from the Director of Finance and Corporate Resources, advising the committee on the overall adequacy and effectiveness of the Council's internal controls, and presenting a summary of the audit work undertaken during 2008/09. Simon Lane (Head of Audit and Investigations) presented the report and answered questions from members. He reported that the proportion of substantial assurance statements had increased to 75%, and all schools assessed against Financial Management Standard in Schools (FMSiS) had passed. There was, however, a qualification in relation to foundation schools, principally around internal audit. Foundation schools had been free to choose their auditors, and the Council was not satisfied that the type of audit work the auditors had carried out was in line with what the Council needed. Measures were being put in place to address this issue for 2009/10. Duncan McLeod (Director of Finance and Corporate Resources) added that the Council was seeking to be clear about the type of audit work needed in foundation schools and the standards expected. This would also be to the schools' benefit. Simon Lane confirmed that the foundation schools had been given advice on the type of auditing needed, including the need for an audit of internal controls on a rolling triennial programme.

Answering a question about the limited level of assurance relating to Council Tax, Phil Lawson (Deloitte) reported that the assessment of direction of travel was also important, which was positive in this case. The situation had improved on the previous year's, and was probably borderline, moving in the direction of substantial. It was also important to consider the context of the volume of transactions. Simon Lane added that three high priority recommendations had been made in relation to Council Tax, two on discounts and exemptions, and these would be addressed as a matter of urgency.

Simon Lane drew members' attention to an overview of fraud, details of which were set out in the report. The largest area in terms of cases referred and

fraud investigations had been housing benefit, with 321 investigations carried out during the year. Fraud had been identified in 118 of these. There was also the new area of misuse of the disabled blue badge scheme, with 30 cases investigated, and fraud identified in 28. A total of 97 sanctions had been carried out as a result of successful fraud investigations, and these included 34 criminal prosecutions. All properties affected by tenancy fraud had been recovered. Action had been taken on 11 cases of internal fraud within the Council, leading to six dismissals and five resignations.

Simon Lane added that there had been no significant impact on the Annual Governance Statement, although the issue around foundation schools would be reflected in it.

The Chair encouraged officers to publicise successful prosecutions of fraud.

Answering a question about fraud relating to direct payments for social care, Simon Lane reported that there had been instances of fraud in this area. Whilst it was accepted that controls could be improved, the main cause of fraud was the determination of individuals to commit fraud, rather than a lack of controls. Monitoring and auditing of this area was being carried out, and fraud awareness training had been provided for staff working in the area and this was likely to lead to an increase in reports of fraud.

RESOLVED:

that the report be noted.

## 8. **Annual Governance Statement**

Members had before them a report from the Director of Finance and Corporate Resources, setting out a proposed Annual Governance Statement for inclusion in the Council's accounts, as required by law. Simon Lane (Head of Audit and Investigations) presented the report and answered questions from members. He reported that the statement informed councillors and the public about the Council's governance arrangements. While it was a substantial document, it was written in lay terms, precisely with the aim of being accessible to the lay reader. The statement included what was effectively an action plan, showing the governance arrangements and the way weaknesses were addressed across six core principles. Details of how the effectiveness of governance was reviewed were also included in the report, including information on the Audit Committee's discharge of its duties. Significant governance issues included the *One Council* agenda, the new Civic Centre, investment in *Building Schools for the Future*, treasury management issues and specific issues relating to Council departments. The statement would be signed by the Leader and Chief Executive, once the Audit Committee was satisfied that it was adequate. It had been through a robust process of review, and was a comprehensive document, Deloitte having tested some of the assertions made.

RESOLVED:

that the Annual Governance Statement be approved.

9. **Treasury Management – Icelandic Banks – Developments since the last meeting of the Audit Committee**

Duncan McLeod (Director of Finance and Corporate Resources) presented the report and answered questions from members on recent developments on issues arising and the lessons to be learnt from the collapse of the Icelandic banks with which local authorities, including Brent, had deposits. Duncan McLeod informed the Committee that the current feeling was that the £5m deposited with Glitnir Bank was likely to be recovered in total, with councils being treated as preferential creditors. Current guidance from the administrators of Heritable Bank, with which the Council had £10m, suggested that 70-80% of the deposit might be recovered, depending on the length and success of the process of running down the business. Further reports from the administrators were anticipated, with an interim payment expected before the end of the summer.

Duncan McLeod drew members' attention to the measures taken in response to the collapse of the Icelandic banks. Debt restructuring had taken place, with building societies having been taken off the lending list. A close eye was being kept on the markets, but the view was that it was too early to move away from the current cautious position. Duncan McLeod added that a House of Commons Select Committee report on local authorities' investments in the Icelandic banks had just been published. He reported that it would take time to consider the report's conclusions and recommendations, as well as related guidance to be produced by the Audit Commission and CIPFA (Chartered Institute of Public Finance and Accountancy). One of the recommendations related to consideration of the inclusion in the Audit Committee of an independent member with specific expertise, and this idea had already been discussed with party group leaders. This and other recommendations from the report would be considered at the next meeting of the Audit Committee.

Duncan McLeod reported that he had received good feedback about the training provided for councillors in this area in May, and was aiming to organise a further session in the autumn.

RESOLVED:

that the report be noted.

10. **Other Urgent Business**

*Data Disaster Recovery*

Answering a question on proposals by Capital Ambition to set up shared data centres for London councils in the event of a need for disaster recovery, Duncan McLeod informed the Committee that the Council had two data centres, which provided resilience. The Council's provider, Capita, also had centres elsewhere, and there was some shared disaster recovery capacity within West London. If necessary, any London-wide proposals could also be considered.

11. **Date of Next Meeting**

It was noted that the next meeting was scheduled to be held on **Thursday 24 September 2009 at 7.30 pm.**

The meeting ended at 9.00 pm

M CUMMINS  
Chair