

## 2004/2005 JOINT AUDIT AND INSPECTION LETTER

Key Issues	PwC Comment/Recommendations	Council's Response
<p><b>1. Closure of Accounts (page 8 of Letter)</b></p>	<p>The Council managed to bring the closedown process forward by a month in 2004/05. In 2005/06 the closure process will need to come forward by another month. This will mean that the accounts will require approval by 30 June 2006 and publication by 30 September 2006.</p> <p>The preparation of financial statements within this timetable will present a challenge for the finance team, particularly in relation to the collation of schools' financial information. Meeting the early closure deadlines will require a significant change in the way that the financial statements are produced. This will include a greater use of estimates and other techniques.</p>	<p>The 2004/2005 accounts were approved by General Purposes Committee on 12<sup>th</sup> July 2005. PwC's unqualified Opinion was dated 31<sup>st</sup> October 2005. Both dates met statutory deadlines.</p> <p>To meet the statutory deadlines for 2005/2006 closing, further improvements will be made to the closing process. This will take account of previous year's successes and includes refinements to the timetable, workbooks, guidance notes and training.</p> <p>Schools have been notified of the earlier closure requirements. To assist the process, all schools were requested to submit budget reconciliations in December/January. These returns enabled officers to check that school accounts reconciled to information held by the Children &amp; Families finance team. This measure enabled any discrepancies to be identified and resolved. This should minimise the number of queries with final 2005/06 year-end returns. An automated process for importing school returns into the Children &amp; Families finance team's accounting system will also lead to time savings and these measures should ensure that the deadline for submission of the Children &amp; Families accounts can be met.</p>
<p><b>2. Financial Standing (page 9 of Letter)</b></p>	<p>The estimated 2005/06 year-end reserves position is currently £7.2m. The Council will need to monitor this position closely whilst delivering against a range of new priorities.</p>	<p>Balances agreed as part of the 2006/07 budget for the new financial year amount to £7.8m.</p>

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<p><b>3. Schools</b> <b>(page 10 of Letter)</b></p>	<p>The Children and Families Directorate have had to deal with around 400 additional children without a school place since the summer of 2005, of which 280 were secondary school pupils. Classes and assessment centres have been found within other Council buildings where placements have not been possible. It is estimated that £1m is required to meet the cost of temporary classrooms for children who would otherwise be out of school, of which £0.5m will be required in 2005/06. Additional revenue costs will be met by the savings in schools budgets including those savings resulting from delays in establishing a new Pupil Referral unit.</p> <p>This issue highlights the need for long term investment in Brent schools. Demands on capital resources include the need to modernise the Special Educational Needs Service, meet demands for additional schools places, replace hutted class-rooms, meet repairs and ensure curriculum needs are met.</p>	<p>£300k growth has been provided in the Children &amp; Families budget for 2006/07 to help address the issue of children without a school place (the budget for 2006/07 is £458k). A cross-departmental group chaired by the Director of Children &amp; Families has been established to monitor the situation and to implement strategies to minimise the number of children without a school place.</p> <p>The Council recognises the pressure on the Capital Programme to resource the needs of schools. As part of the 2006/07 budget process £52.5m of capital resource was allocated to schools for the period from 2006/07 to 2009/10 to seek to address the infrastructure issues highlighted by PwC.</p>
<p><b>4. Debt Management</b> <b>(page 11 of Letter)</b></p>	<p>We identified some issues around debt recovery at service unit level, around the clarity of information supporting older debts. There is potential scope for the Council to improve the analysis of debtor balances in areas such as Homelessness, Streetcare and Parks Services – which may enable it more easily to pursue recovery of debts that have been provided against. In these cases write off (rather than provision) may also become appropriate, if it is clear that amounts cannot be recovered.</p>	<p>A report has gone to Overview Committee outlining proposals for an improved debt recovery strategy. The report details issues involved in debt recovery, and the link to poverty. It is proposed that, following further consultation with units, a baseline position be established at the end of 2005/06. Following this, there will be monitoring of various performance indicators by Strategic Finance Group to ensure that improvements are achieved. This process will be assisted by PwC who will be advising on best practice in other organisations.</p>

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	<p>We understand that the Council is re-examining its debt recovery strategy and a task group involving members has been established to examine debt recovery and reporting procedures. We will continue to monitor the Council's actions in this area during 2005/06.</p>	
<p><b>5. E-Government (pages 11-12 of Letter)</b></p>	<p>Local Authorities are expected to meet BVPI 157 which requires all services to be delivered electronically by December 2005.</p> <p>Progress appears to be good, and the Council is well within reach of the BVPI157 target. Based upon our brief review, the Council appears to have the Priority Outcomes under control and has plans in place to ensure 'e-Government' moves forward beyond the 2005 deadline.</p> <p>Whilst this is all positive there are a number of actions for the Council to consider in order to ensure this progress continues:</p> <ul style="list-style-type: none"> <li>• The Council should continue to monitor its progress against BVPI157 to ensure that the final steps are completed and the target is met;</li> <li>• The Council should continue to monitor the progress made both internally and externally to address those Priority Outcomes where it has responsibility to deliver these outcomes;</li> <li>• The Council should continue to work with the West London Alliance and London Connects to share information, as well as development and procurement opportunities;</li> </ul>	<p>A report on overall progress is being considered by the Executive on 10<sup>th</sup> April.</p> <p>BVPI 157 target was met with 100% of services e-enabled.</p> <p>Agreed - Priority Service outcomes are being monitored.</p> <p>Agreed - there are ongoing close working arrangements with both WLA and LC.</p>

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	<ul style="list-style-type: none"> <li>• The Council needs to build on the work already carried out around process reviews. Whilst the mapping of existing services and those elsewhere is a positive step, to gain real benefit it needs to be taken further to ensure services are improved and made more efficient; and</li> <li>• The work on e-procurement should be developed further to make the most of the opportunities this provides. In particular a move toward bulk, council-wide buying could provide significant efficiencies.</li> </ul>	<p>Agreed - there are ongoing projects using the process mapping tool as part of improving efficiency.</p> <p>The Procurement Unit are considering various e-Procurement initiatives.</p>
<p><b>6. Brent's Pension Fund (pages 13-14 of Letter)</b></p>	<p>The actuary undertook a valuation of the pension fund at March 2004. They assessed whether the assets of the fund and future contributions will meet liabilities. The valuation of £344.2m indicated a funding level of 67% of liabilities, equating to a deficit of £174m. The Council is by no means alone in showing a deficit on its pension fund, though its funding level of 67% is just under the average for local authorities, calculated by CIPFA last year, of 71%.</p> <p>Following discussions with its actuary, the Council decided to plan to recover deficit over 25 years. This compares against a local authority average, calculated by CIPFA last year, of 20 years. Establishing the period for recovery is a matter of judgment. However, there also needs to be a proper regard for ensuring that:</p> <ul style="list-style-type: none"> <li>• The deficit can be recovered over a reasonable period;</li> <li>• The charge in the accounts for pensions reflects the true costs incurred in the year; and</li> </ul>	<p>The 2004 Actuarial Valuation indicated that there was a deficit of £174m against liabilities. To recover the deficit, a recovery period of 25 years was agreed. This was the actuary's standard period in 2004, and one that recognised that liabilities would not be payable for many years and that employer contribution rates were already high.</p> <p>The recovery period will be reviewed in 2007. Investment returns have been good since 2004, but the value of liabilities has risen as gilt yields have fallen. Pension Fund Sub Committee continues to monitor returns and has been active in improving investment arrangements. A new global equity manager has been appointed to replace an underperforming manager, and the fund has invested in currency (Nov 2006) and hedge funds (March 2006) for the first time. Steps have also been taken to improve fixed interest returns and to increase investment in property and private equity.</p>

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	<ul style="list-style-type: none"> <li>• Future council tax payers are not unreasonably burdened as compared with the current generation of taxpayers.</li> </ul> <p>The Council intends to review the recovery period at the next Actuarial Valuation (2007), when conditions may be more favourable and allow a revision to the current 25 year treatment. We will continue to review the prudence of the recovery of the deficit as part of subsequent audits.</p>	
<p><b>7. Performance Indicators (page 17 of Letter)</b></p>	<p>The Council continues to make further improvements to the quality of its published performance information. This year we placed reservations on two Best Value Performance Indicators (BVPIs). This is an improvement compared with last year where there 5 reserved indicators. We were also pleased to note that the Council has now implemented a more robust methodology for calculating BVPI 8 (Prompt Payment of Invoices).</p> <p>The two reserved indicators were BVPI 174 and 175 (Reporting of Racial Incidents), which have been reserved in previous years. Although the Council has made some progress in implementing systems to capture the required information these systems are not yet in place in all departments.</p>	<p>We have successfully reduced the number of reserved BVPIs from 5 in 2003/04 to only 2 in 2004/05. We have set up a steering group to refine our processes for BVPIs 174 and 175 and expect to have no BVPIs reserved in 2005/06.</p>

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<p><b>8. Human Resources (pages 17-18 of Letter)</b></p>	<p>In May 2005 the Audit Commission was invited by the Council to assess progress it had made against the recommendations of a review of Human Resources conducted by the Commission in July 2003. We found that improvements had been made to HR services since our last review, however, we found that an agreed HR strategy setting out the vision, direction and priorities for HR services in Brent was still lacking.</p> <p>The report made a number of recommendations including carrying out a thorough appraisal of options for the future delivery of HR services; implementing an HR strategy (People Management Strategy); and establishing appropriate support, challenge and scrutiny, at a political and senior management level, for the delivery of HR services and people management across the council.</p> <p>The Council has developed an action plan to deliver on these recommendations and an HR strategy is now in place. A report was also presented to the Executive in 12 December 2005 which detailed the way forward for HR.</p>	<p>The action plan is being monitored by a Board of senior officers led by the Chief Executive. 7 specific workstreams have been established to deliver the strategy.</p>
<p><b>9. Insurance (page 18 of Letter)</b></p>	<p>In 2003/04 PwC's insurance specialists carried out a high level review of insurance arrangements the Council.</p> <p>In February 2005 we carried out a more detailed review of the Council's claims handling processes and controls. We identified a number of areas where there is the potential to reduce claims expenditure and risk, as well as to improve management of the day to day claims operation. These include:</p>	<p>1. The Insurance Unit and the Transportation Unit through the Highway Claims Focus Group have made significant progress in reducing claims by utilising the claims data to target maintenance.</p>

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	<ul style="list-style-type: none"> <li>• Scope to improve the efficiency of the risk management process (in particular, highways claims) and the opportunity for better preventative measures;</li> <li>• Reduce delays in the claims handling process;</li> <li>• Improve the quality of management information provided to the council by its insurer; and</li> <li>• Improve the insurer's documentation for the settlement process and for Brent to implement a clear service level agreement.</li> </ul> <p>We presented our report to officers in June 2005 and it was agreed that views would be captured and fed into a further insurance study to be undertaken in 2005/06. The Council is making progress in its response to third party claims, risk management and insurance control action points, but needs to keep on top of these and to develop appropriate performance indicators to enable the Director of Finance and Corporate Resources to ensure that costs are controlled.</p>	<ol style="list-style-type: none"> <li>2. The claims process is under regular scrutiny by all the stakeholders with a view to eradicating delays and improving the flow of information.</li> <li>3. The Insurance Unit has been working with the insurers to improve the quality of information being provided on claims. There are some issues related to the IT systems used by both parties and work is ongoing to resolve the problem. The data sharing is currently being undertaken manually</li> <li>4. The Council has been working with the insurers to improve the Service Level Agreement and we have now reached a compromise which should lead to further improvements in performance going forward.</li> <li>5. A recent report to the Performance &amp; Finance Select Committee shows a reduction in the number of Highway (pavement slip and trip) claims from 261 in 2003 to 169 in 2004 and 117 in 2005, evidencing that the measures taken have had some impact on the outcomes.</li> </ol>
<p><b>10. Social Services Performance Assessment (page 19 of Letter)</b></p>	<p>In August 2004 PwC undertook an audit to provide assurance on the consistency and accuracy of data underlying a sample of Performance Assessment Framework (PAF) indicators.</p>	<p>Further progress has been made on how PAF PIs are compiled. In addition to the improvements highlighted on the left, the following has been or is being changed:</p>

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	<p>Although we found some evidence of good practice in relation to policy, strategy and operational practice, we found that the production of the 2003/04 indicators relied upon a range of locally developed stand-alone spreadsheets and manual data collection processes. The processes underlying the referrals and assessment (RAP) return for 2003/04 were particularly weak with a lack of adequate audit trails and as a result of this we placed a reservation on BVPI 54.</p> <p>The Council has made some progress in the last year in addressing our high priority recommendations. Key improvements include:</p> <ul style="list-style-type: none"> <li>• Much of the data underlying central returns can now be extracted centrally from the Framework I database, thus reducing the scope for transposition errors and strengthening audit trails;</li> <li>• The use of standalone systems has been largely eradicated following an exercise to validate all of the information held on Framework I against any stand alone systems; and</li> <li>• The department has now implemented a new database for the equipment stores and this has improved the quality of occupational therapy data.</li> </ul> <p>However Framework I is not yet fully reconciled with the Abacus finance system and discussions are still ongoing with the IT supplier Trojan to rectify age calculation problems within the Abacus reporting function.</p>	<p>Further progress has been made on how PAF PIs are compiled. In addition to the improvements highlighted on the left, the following has been or is being changed:</p> <ul style="list-style-type: none"> <li>▪ The finance data and performance activity data is being scrutinised, in detail, to ensure that the information is consistent wherever possible. The Frameworki Finance Module (which is currently under development) may be purchased in the future.</li> <li>▪ Further improvements in the collection of audit trails have been made, especially via the Frameworki system.</li> <li>• Process improvement work on key PIs has been carried out to further improve the collection process and the PI outturns.</li> <li>• A Performance Management system is being procured to stream-line the processes of collecting PI data. This will provide further audit trails of who has provided the data and what calculations have been performed.</li> </ul> <p>During 2006-07, process improvement work will continue to ensure that PI data is still in line with DoH guidance and where possible improvements are made to increase PI outturns.</p>