



## Audit Committee

**Wednesday, 29 September 2010 at 7.30 pm**  
Committee Room 4, Brent Town Hall, Forty Lane,  
Wembley, HA9 9HD

### Membership:

#### Members

Councillors:

Al-Ebadi (Chair)  
Ashraf  
Van Kalwala

#### first alternates

Councillors:

Beckman  
Green  
Harrison

#### Second alternates

Councillors:

S Choudhary  
Cummins  
Hector

**For further information contact:** Toby Howes, Senior Democratic Services Officer  
020 8937 1307, [toby.howes@brent.gov.uk](mailto:toby.howes@brent.gov.uk)

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**The press and public are welcome to attend this meeting**

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
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<b>1</b>	<b>Declarations of personal and prejudicial interests</b>	
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Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.

<b>2</b>	<b>Deputations</b>	
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<b>3</b>	<b>Minutes of the previous meeting held on 15 June 2010</b>	<b>1 - 6</b>
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The minutes are attached.

<b>4</b>	<b>Matters arising</b>	
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<b>5</b>	<b>Statement of Accounts 2009/10 Annual Governance Report</b>	<b>7 - 66</b>
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The Audit Committee has responsibility for reviewing the annual statement of accounts to ensure that appropriate accounting policies have been followed and, where required, that concerns arising from the financial statements or from the audit are brought to the attention of the Council. The basis for this consideration is the Annual Governance Report.

**Ward affected:**

**Contact Officer:** Duncan McLeod, Director of  
Finance and Corporate Resources

All Wards;

Tel: 020 8937 1424 [duncan.mcleod@brent.gov.uk](mailto:duncan.mcleod@brent.gov.uk)

<b>6</b>	<b>Audit Commission review of Council arrangements in respect of Copland School</b>	<b>67 - 84</b>
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This report introduces the Audit Commission's report on the council's arrangements in respect of Copland School both prior to and subsequent to receipt of allegations of financial mismanagement. This report provides some additional background to the arrangements and sets out the

**Ward affected:** **Contact Officer:** Duncan McLeod, Director of Finance and Corporate Resources

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This report includes a number of documents produced by the Audit Commission in their role as the Council's external auditors.

<b>8</b>	<b>Internal Audit terms of reference and strategy</b>	129	-
		142	

This report sets out the Internal Audit Terms of Reference and Strategy for 2011 to 2013.

**Ward affected:** **Contact Officer:** Duncan McLeod, Director of Finance and Corporate Resources

All Wards: Tel: 020 8937 1424 [duncan.mcleod@brent.gov.uk](mailto:duncan.mcleod@brent.gov.uk)

<b>9</b>	<b>Internal Audit progress report</b>	143	-
		214	

**This report sets out a summary of the work of Internal Audit for the period from 1<sup>st</sup> April 2010 to 31<sup>st</sup> August 2010. The attached report at Appendix 1 provides detail, together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since April 2010.**

**Ward affected:** **Contact Officer:** Duncan McLeod, Director of Finance and Corporate Resources

All Wards; Tel: 020 8937 1424 [duncan.mcleod@brent.gov.uk](mailto:duncan.mcleod@brent.gov.uk)

## 10 2010 Treasury Annual report

215  
232

-

This report attaches the 2010 Treasury Annual report that was approved by Full Council on 13 September, and updates members on recent treasury activity.

**Ward affected:**

**Contact Officer:** Martin Spriggs, Exchequer and Investment

All Wards;

Tel: 020 8937 1472 martin.spriggs@brent.gov.uk

## 11 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

## 12 Date of next meeting

The next scheduled meeting of the Audit Committee is scheduled for 16 December 2010.



- Please remember to **SWITCH OFF** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.
  - Toilets are available on the second floor.
  - Catering facilities can be found on the first floor near The Paul Daisley Hall.
  - A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge



## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE

Tuesday, 15 June 2010 at 7.30 pm

PRESENT: Councillor Al-Ebadi (Chair) and Councillors Ashraf and Van Kalwala

Apologies were received from: Councillors Cummins

1. **Declarations of personal and prejudicial interests**

None

2. **Deputations**

None

3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 3 March 2010 be approved as an accurate record of the meeting.

4. **Audit Commission documents**

Duncan McLeod (Director of Finance and Corporate Resources) referred to the three documents produced by the Audit Commission namely the progress report for June 2010, the Performance Management Review for 2008 and the Annual Audit Fee letter for 2010/11 and introduced Audit Commission representatives to the meeting.

Andrea White (Audit Commission) summarised the role of the Commission as an independent body monitoring effectiveness and efficiency in local government. She referred to the Code of Practice which would come before members regularly for review and their responsibilities for the council's accounts which were open for public inspection. She offered to give members a more detailed presentation in the future.

On the progress report, Ms White advised that the report set out progress on the Audit Plan in comparison with the position for 2009/10. She referred to the impact of central government's recent announcement to abolish CAA (Comprehensive Area Assessment) and plans to bring an end to work in this area. Paul Viljoen (Audit Commission) referred to the performance management report which outlined work currently being planned or undertaken by the Audit Commission in particular the

health inequalities review the outcome of which would be reported by end of June 2010. He also made reference to the indicative annual audit fee for 2010/11 which was a 6% increase on the previous year mainly due to increased work due to the need for International Reporting Standards compliance. Regarding the Audit Letter, Paul Viljoen highlighted perceived risks to the audit which currently included the Improvement and Efficiency programme which needed to be robust, funding for the Building Schools for the Future programme, the impact of an economic downturn and the move to International Reporting Standards which added to the workload of all local authorities. Finally, Paul Viljoen referred to the key objectives arising from the 2008 review in particular progress being made in responding to the staff survey, the need to support housing staff in their use of the current performance management IT system and the development of a register to map the reporting and delegation arrangements for partnerships so that the council could have access to up-to-date information. This was now in place. Members noted that the review was considered to be very positive.

RESOLVED:

that the report be noted.

## **5. The National Fraud Initiative**

The report from the Director of Finance and Corporate Resources provided details of the Audit Commission's National Fraud Initiative and summarised the council's work in relation to the 2008/09 exercise. Simon Lane (Head of Audit and Investigations) explained the role of his unit in assisting managers to ensure proper controls were in place to protect the council's interests, based on agreed priorities. The National Fraud Initiative was a data matching exercise which revealed anomalies which could be indicative of fraud. Of the matches prioritised for review, 82 were investigated resulting in 21 findings of fraud. Simon Lane clarified that in fact overpayments due to fraud and error of £150,000 (not £115,000) had been identified from matches investigated and that success had been achieved in relation to the Single Person Discount to Electoral Register match. Simon Lane confirmed that the council was carrying out all eight of the Audit Commission's recommendations. This discussion would be contributing to the requirement to engage with members.

In response to members' questions, Simon Lane advised that where evidence of past fraud had come to light, investigations would be carried out and efforts made to recover funds. Efforts would also be made to get data as soon as possible so that matching could be carried out. Investigations were instigated taking into account Audit Commission priorities and also taking into account local experience. Other council departments assisted in the investigations under Special Investigation Unit supervision and the Audit Commission recognised that local authorities did not have sufficient resources to deal with all cases.

RESOLVED:-

that the report be noted.

## **6. Order of business**

The committee agreed to change the order of business for consideration.

**7. Final Internal Audit Progress Report 2009/10**

Simon Lane (Head of Audit and Investigations) introduced the report which summarised the work of the Internal Audit for 2009/10 and provided an update on progress since the last report to members. He advised that 95% of the Internal Audit Plan for 2009/10 had been delivered by the council's Internal Auditors (Deloitte) and the in-house team. Of the new audits being reported as final, the three key ones, (Council Tax, NNDR and Payroll) all had substantial opinions. Simon Lane then addressed audits that had limited assurances ie had weaknesses in their internal control systems and which were a high priority for attention. On schools' financial management all were now required by central government to reach a minimum standard under FMSiS (Financial Management Standard in Schools). The Audit Team would be carrying out assessments to establish which passed and which had failed to meet the required standard.

Members raised questions on the audit that would have been carried out for Copland School whose financial management had recently been the subject of investigation. Simon Lane advised that the school had passed the last FMSiS conducted three years previously, by an approved firm of accountants. In view of recent investigation, future audits would be carried out by the council and Deloitte and a more robust interpretation of regulations was anticipated. He emphasised however that the FMSiS assessment not an audit but a separate requirement under guidance issued by the Department of Schools and Families. Any problems could be raised with the school or with the Department and the Director confirmed that a letter has already been sent to the Department. Copland would be prioritised for a full audit. Finally, members heard that the customer satisfaction ratings of the work carried out by Deloitte were generally high.

RESOLVED:

that the progress made in achieving the 2009/10 Internal Audit Plan be noted.

**8. Internal Audit Annual Report 2009/10**

Simon Lane (Head of Audit and Investigations) introduced his annual report which included an opinion on the overall adequacy and effectiveness of the Council's internal controls and presented a summary of the audit work undertaken during the year. He indicated that the audit was generally satisfactory and the key financial systems audited in 2009/10, namely Council Tax, NNDR and Payroll all attained substantial assurance. There were fewer audits with limited assurance and these did not involve major financial systems. Furthermore, the percentage with substantial assurances was increasing. Simon Lane made reference to the number of schools that had been visited by the Audit Team for assessment against a financial management standard in accordance with government requirements and also drew members' attention to the fraud case load. Of 330 cases investigated, 154 had been proven relating to housing benefit and tenancies.

In response to members' concerns over the number of complaints, Simon Lane advised that the situation was improving and that his Team's concern was the adequacy of control systems, the speed with which they were dealt with and not

escalated and also the organisation's ability to learn from mistakes. Phil Lawson (internal audit, Deloitte) confirmed that there were concerns over the extent to which deadlines for following up complaints were being kept and would report back. Members noted that the full report on complaints would be submitted to the Executive to which recommendations could be made.

RESOLVED:

that the report be noted.

## **9. Annual Governance Statement**

The report from the Director of Finance and Corporate Resources set out the proposed Annual Governance Statement for inclusion in the council's accounts for 2009/10 as required by the Accounts and Audit Regulations 2003 (as amended). The statement showed how the council had complied with its local Code of Corporate Governance and where relevant, actions necessary to address weaknesses, which it was noted were few. The Head of Audit and Investigations stated that the evidence indicated that the council had systems in place to deliver good governance and he set out for members how review and monitoring would take place. Members heard that key issues for next year would be the One Council transformation programme, schools expansion under the Building Schools for the Future programme, recovering Icelandic Bank loans and departmental budgets in particular adult and social care. It was now for members to agree the accuracy of the report so it could be signed off by the Leader of the Council and the Chief Executive.

On the Building Schools for the Future programme, the Director of Finance and Corporate Resources stated that following the outcome of the recent parliamentary elections, indications were that the programme was under review and could be either reduced or halted. The LEA had entered the programme under Wave 7 at the beginning of the year and to date, no funding had been received. Four schools were due to be built and building works were not due to start until 2011.

The committee approved the governance statement.

RESOLVED:

that approval be given to the content of the Annual Governance Statement as set out in Appendix 1 to the report from the Director of Finance and Corporate Resources.

## **10. Audit Committee potential training requirements**

The Director of Finance and Corporate Resources started the discussion on areas in which members may wish to receive training. It was agreed that a session from the council's internal auditors Deloitte on the work of the committee and how it related to scrutiny and responsibility for the audit of accounts would be useful, also on treasury management. Members also expressed interest in a short session where they could see background audit work being carried out by staff. The Head of Audit and Investigations agreed to liaise with parties concerned.




11. **Date of next meeting**

It was noted that the next meeting was due to take place on 29 September 2010.

The meeting closed at 9.00 pm

E AL-EBADI  
Chair

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	<p style="text-align: center;"><b>Audit Committee</b> Wednesday 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
For Action	Wards Affected: ALL
<p style="text-align: center;"><b>Report Title: STATEMENT OF ACCOUNTS 2009/10 ANNUAL GOVERNANCE REPORT</b></p>	

Forward Plan Ref:

## 1.0 Summary

- 1.1 Under the Council's Constitution, the General Purposes Committee has responsibility for approving the accounts, which it did on 29<sup>th</sup> June 2010. The Audit Committee, however, has responsibility for reviewing the annual statement of accounts to ensure that appropriate accounting policies have been followed and, where required, that concerns arising from the financial statements or from the audit are brought to the attention of the Council.
- 1.2 The basis for this consideration is the Annual Governance Report which the Council's external auditors, the Audit Commission, produce following completion of the audit of accounts. The report is intended to identify any unadjusted mis-statements or material weaknesses in controls identified during the audit work.
- 1.3 A separate Annual Governance Report has been produced for the Pension Fund accounts. This will be considered by the Pension Fund Sub-Committee at its meeting on 28<sup>th</sup> September and any comments from that Sub-Committee will be reported to this Committee. However the responsibility for formally responding to the issues arising from the audit of the Pension Fund accounts rests with this Committee.
- 1.4 The Audit Commission are in the process of completing the audit of the 2009/10 accounts and the draft Annual Governance Reports, reflecting the current position, are attached to this report. Representatives from the Audit Commission will attend the meeting to provide an update on the audit and respond to any matters raised by the Committee.

## **2.0 Recommendations**

The Committee is asked to:

- 2.1 Consider the Annual Governance Reports from the Audit Commission and the letters of representation to the Audit Commission
- 2.2 Consider the accounting policies that have been followed and decide whether any issues arising from the financial statements and the audit need to be brought to the attention of Full Council.

## **3.0 Detail**

- 3.1 From the 2002/03 financial year onwards auditors were required to produce a report notifying members of any unadjusted mis-statements or material weaknesses in controls identified during their audit work. This requirement was partly prompted by the strengthening of accounting and audit standards after the “Enron Affair”. The aim was to ensure transparency of process to those with a responsibility for the accounts.
- 3.2 The Audit Committee is responsible for examining the external auditors’ report on issues arising from the audit of the accounts. Its role is to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the audit that need to be brought to the attention of the Council.
- 3.3 Members should note that each year there is a statutory 20 day period for public inspection of the accounts. The public can inspect and make copies of the accounts and all books, deeds, contracts, bills, vouchers and receipts related to them. This excludes personal information such as staff salaries. The 20 days for public inspection of the 2009/10 accounts were from 29<sup>th</sup> July to 25<sup>th</sup> August 2010 inclusive.
- 3.4 At the time of writing this report the Audit Commission has substantially completed its audit of the accounts. The draft Annual Governance Reports provide key messages from the audit, including:
  - Opinion on the financial statements
  - Adjustments to the draft accounts
  - Internal control issues
  - Recommendations for future improvements
- 3.5 In addition, each year the Council sends a letter of representation to the external auditor about the annual accounts. Draft letters are included in the attached reports.
- 3.6 General Purposes Committee approved Brent’s 2009/10 accounts on 29<sup>th</sup> June 2010. There have been a few changes to the accounts during the audit process, as set out in the Annual Governance Reports. The revised accounts

will be circulated to the Committee when they have been finalised with the Audit Commission.

#### **4.0 Financial Implications**

- 4.1 There have been some adjustments to the Statement of Accounts during the course of the audit but for the most part these are changes to balance sheet items and notes to the accounts which have no impact the Council's overall financial position or level of available reserves. The Audit Commission will send the Council its audit opinion after the conclusion of this Committee.

#### **5.0 Legal Implications**

- 5.1 No specific implications.

#### **6.0 Diversity Implications**

- 6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

#### **7.0 Staffing Implications**

- 7.1 No specific implications.

#### **8.0 Background Information**

- 8.1 Draft 2009/10 Statement of Accounts, General Purposes Committee, 29<sup>th</sup> June 2010.

#### **9.0 Contact Officer**

Any person wishing to inspect these documents should contact Max Gray, Finance and Corporate Resources, Room 107, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Tel. 020 8937 1464.

**DUNCAN McLEOD**  
**Director of Finance and Corporate Resources**

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# Annual Governance Report

London Borough of Brent  
Audit 2009/10  
**As at 17 September 2010**



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-



Ladies and Gentlemen

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

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

I discussed and agreed a draft of the report with the Director of Finance and Corporate Resources on 15 September 2010. I expect to issue a final version once my audit work has been fully concluded.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 13);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Andrea White  
District Auditor

17 September 2010

# Key messages

This report summarises the findings from my 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in the use of your resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	8
Financial statements free from material error	No	9
Adequate internal control environment	Yes	10
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	15

## Audit opinion

- My audit is substantially complete although there are some areas where I await further information before I can complete my testing. The areas outstanding relate to:
  - Housing Revenue Account;
  - Funds, balances and reserves;
  - Cash Flow Statement;
  - Statement of Total Recognised Gains and Losses;
  - Statement of Movement in General Fund Balances;
  - FRS17 disclosures;
  - Group Accounts;
  - receipt of external confirmations (mainly school bank accounts, Brent Housing Partnership's External Auditor and external property valuer);
  - clearing queries on largely completed areas of the audit (Housing, Environment, Private Finance Initiatives (PFIs) and Contingent Liabilities); and
  - our internal review and audit closure processes.
- Subject to the satisfactory resolution of my testing, I expect to be in a position to issue an unqualified audit opinion by 30 September 2010.
- Overall the audit has progressed well, with good responses from officers and robust working papers prepared by the Council. However, we have experienced delays in

finalising our audit work in the Adult Social Care and Housing departments due to poor working papers and slow responses to our queries in these areas.

- 4 I have considered the outcome of outstanding legal proceedings which prevented me from concluding my audit of the Council for 2007/08 and 2008/09. I have concluded these matters do not have a material effect on the 2007/08, 2008/09 or 2009/10 financial statements, and I do not propose to exercise my specific powers under the Audit Commission Act 1998. I am therefore expect to be in a position to certify the audits for all three years as closed once my audit work for 2009/10 is complete.

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### Financial statements

- 5 The draft financial statements were submitted for audit on 30 June 2010 in accordance with the agreed timetable. The financial statements were complete, but my audit identified errors which resulted in amendments being made to the main financial statements as detailed in paragraph 15. These errors do not change the reported surplus (subject to outstanding adjustments relating to the Housing PFI below). The material amendments are detailed below:
- Overall, the Council has responded well to the introduction of International Financial Reporting Interpretations Committee 12: Service Concession Arrangements (IFRIC12) by carrying out a thorough review of non-PFI arrangements which fall under IFRIC12 on a timely basis. This is the first year of accounting under IFRIC12 for local authorities. However, additional work has been required on the Housing PFI following audit queries raised with the officers. I have recently completed our audit of the revised model and await the revised accounting entries. I will update my report once this work has been completed.
  - The Council made £12.7m of bad debt write offs through the Collection Fund. This was incorrectly offset against income from council tax. The Local Government Statement of Recommended Practice (LG SORP) requires this to be disclosed as bad debt write offs under expenses.
- 6 In addition, further non-trivial changes were made as a result of audit findings, these are summarised in Appendix 2.

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### Value for money

- 7 I propose issuing a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate.

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### Audit fees

- 8 The fee for the audit is £470,000 as reported in our Opinion Plan in March 2010. I propose to increase the fee by £10,000 based on additional work required and delays on the PFIs and Housing and Adult and Social Care departments. I will keep this under review until I complete the audit.

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### Independence

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

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## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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

- consider the matters raised in the report before approving the financial statements (pages 4 to 14);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); 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 Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

- 11** My audit is substantially complete although there are some areas where I await further information before I can complete my testing. The areas outstanding relate to:
- Housing Revenue Account;
  - Funds, balances and reserves;
  - Cash Flow Statement;
  - Statement of Total Recognised Gains and Losses;
  - Statement of Movement in General Fund Balances;
  - FRS17 disclosures;
  - Group Accounts;
  - Receipt of external confirmations (mainly school bank accounts, Brent Housing Partnership's External Auditor and external property valuer);
  - clearing queries on largely completed areas of the audit (Housing, Environment, PFIs and Contingent Liabilities); and
  - our internal review and audit closure processes.
- 12** Subject to the satisfactory resolution of my testing, I expect to be in a position to issue an unqualified audit opinion by 30 September 2010.
- 13** Overall the audit has progressed well, with good responses from officers and robust working papers prepared by the Council. However, we have experienced delays in finalising our audit in the Adult Social Care and Housing departments due to poor working papers and slow responses to our queries in these areas.

## Errors in the financial statements

- 14** The draft financial statements were submitted for audit on 30 June 2010 in accordance with the agreed timetable. The financial statements were complete, but my audit identified errors which resulted in amendments being made to the main financial statements. These errors do not change the reported surplus (subject to outstanding adjustments relating to the Housing PFI below). The material amendments are detailed below:

- Overall, the Council has responded well to the introduction of IFRIC12, and identified non-PFI arrangements which fall under IFRIC12 following their internal review. However, additional work has been required on the Housing PFI following audit queries raised with the officers. I have recently completed our audit of the revised model and await the revised accounting entries. I will update my report once this work has been completed.
- The Council made £12.7m of bad debt write offs through the Collection Fund. This was incorrectly offset against income from council tax. The Local Government Statement of Recommend Practice (LG SORP) requires this to be disclosed as bad debt write offs under Expenses. This has no impact on the reported surplus in the Collection Fund.

15 In addition, further non-trivial changes were made, these are summarised in Appendix 2.

16 I have also identified the following items, which the Authority have chosen not to make amendments for:

- the Willesden Leisure Centre PFI, includes a property brought into use four years ago. This has not been revalued or subject to an annual impairment review, because, in the past, the asset was accounted for off balance sheet under Financial Reporting Standard 5: Reporting the substance of transactions. This year the asset has been brought onto the balance sheet under International Financial Reporting Interpretations Committee (IFRIC) 12 (see table 1 below). To assess the impact, given the Council has not performed a valuation yet, we have applied property indices to estimate the change in value. This indicates an impairment of £3,741k. The Council is currently performing it's own revaluation of the property which we expect to review before concluding our audit;
- In the accounts, the Council has provided for £200k of expenditure to repair various leased properties to their original state in accordance with lease terms. Officers were unable to provide sufficient evidence to support this entry in the accounts.

17 These are detailed in Appendix 3.

Recommendation	
<b>R1</b>	Review accounting for PFI schemes to: <ul style="list-style-type: none"> <li>• address key points in the contract and asset delivery; and</li> <li>• variations to the contract.</li> </ul>
<b>R2</b>	Ensure all accounting entries and related disclosures comply with the LG SORP.
<b>R3</b>	PFI assets to be subject to: <ul style="list-style-type: none"> <li>• annual impairment reviews, and</li> <li>• included in valuation cycle.</li> </ul>
<b>R4</b>	Ensure supporting documentation is available to support all provisions, as required by FRS12.

### Important weaknesses in internal control

- 18** I did not identify any significant weaknesses in your internal control arrangements, which had not already been reported to you. However, I identified a control weakness in the Adult Social Care department that I wish to bring to your attention. No monthly control account reconciliations took place during 2009/10.

### Recommendation

- R5** Perform and review control reconciliations on a monthly basis in Adult and Social care.

### Letter of representation

- 19** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

### Key areas of judgement and audit risk

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

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Introduction of International Financial Reporting Interpretations Committee (IFRIC) 12 to replace Financial Reporting Standard (FRS) 5 to account for Private Finance Initiatives (PFIs). London Borough of Brent has 4 PFIs (Brent Street Lighting, Willesden Sports Centre, Social Housing Facilities, JFS). There is a risk that PFIs are incorrectly accounted for resulting in material mis-statement.	There were an additional 2 agreements covered by IFRIC12 (Stonebridge and Vale Farm Sports Centre) identified by the Council.  I have substantially completed my audit of the PFIs and agreements that require accounting under IFRIC12.  This has resulted in errors, detailed at paragraph 17.
There is an increased risk of error from 'limited assurance' assessments by Internal audit (IA). Payroll, a key financial system, was assessed as limited assurance in the prior year. This risk reduces our ability to rely on controls testing, and increases the need to perform	The payroll review by IA provided substantial assurance in 2009/10.  I have also considered the IA review of other key financial systems and have identified weaknesses in the following systems:



Issue or risk	Finding
substantive testing.	<ul style="list-style-type: none"> <li>Children and Families services; and</li> <li>Treasury management.</li> </ul> <p>In both, cases I have adopted substantive procedures to audit areas with identified control weaknesses.</p>
Irregularities at a local school highlighted limitations in previous governance and control arrangements over Foundation schools. The Council has responded by implementing new control arrangements, such as Internal audit reviews.	The 2009/10 IA report covered 30 schools (of 75), which were tested in year. There were 25 passes, 4 conditional passes and 1 fail. IA increased their remit by including foundation schools in their reviews. I have reviewed a sample of work. No errors have been noted, and this provides assurance over schools balances.
There is an increased risk that fixed assets are not valued appropriately, from our findings in 2008/09. The Council did not account for a downward valuation of £19.97m in accordance with the Local Government Statement of Recommended Practice (LG SORP).	<p>I have completed our review of the valuation and have identified a possible impairment. This is subject to final receipt of external confirmations (see paragraph 12).</p> <p>I am currently finalising my review of the accounting treatment of the valuation changes in 2009/10.</p>
The Council is required to complete a Whole of Government Accounts (WGA) return. This is so a consolidated set of accounts for the whole of the public sector can be prepared. The basis for consolidation in 2009-10 is expected to change from UK GAAP to IFRS. Final guidance for accountants is expected in March 2010.	The Council completed its draft WGA return on the 31 August 2010. We intend to review and conclude our work by the 1 October.

### Accounting practice and financial reporting

**21** I consider the non-numeric content of your financial reporting. I have noted various disclosure errors and omissions in the accounts presented for audit. I have agreed following amendments to the draft financial statements with the Authority:

- Accounting policies amended to include:
  - detail to allow the user to under options (e.g. optional methods to calculate Minimum Revenue Provision) chosen by the Council in accordance with the Local Government Statement of Recommended Practice (LG SORP);

- changes in accounting practice for NNDR and Council tax, where the Council now considered to act as an agent per the LG SORP;
- amortisation and useful economic lives of intangible assets
- additional disclosures to explain changes to comparators because of the change in accounting practice for NNDR and Council tax;
- increase in numbers (5) of officers receiving remuneration in excess of £50k;
- increase payments due within 1 and 2-5 years for operating leases by £1,394 and £1,909k respectively;
- impairment disclosure providing a note on significant impairments during the year, including relevant assets, value and nature of impairment;
- removal of the £650k compensation claim made by L&B Holdings and addition of guarantee of Jewish Free School PFI to contingent liability disclosures;
- disclose a post balance sheet event for legislation changing the basis for measuring public sector pensions, under FRS17: Retirement Benefits, from the Retail Price Index to the Consumer Price Index;
- clarification of financial instruments disclosure with additional detail required to address LG SORP requirements;
- amend other minor disclosures, including;
  - to make narrative disclosures between the foreword, primary statements and notes to the financial statements consistent; and
  - minor presentational amendments for consistency throughout the financial statements.

---

## Value for money

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

---

### Value for money conclusion

- 22** I assess your arrangements to secure economy, efficiency and effectiveness in the use of resources your against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 23** The Authority has adequate arrangements in place for its use of resources. During the course of my audit I noted the following strengths:
- the Council has a clear focus on delivering efficiencies through its Improvement and Efficiency Action Plan and has successfully met government targets;
  - strong member development arrangements are in place including cross party work and dedicated officer support;
  - recruitment and retention activities have been successful in addressing priorities and the Council has modernised recruitment through, for example, the introduction of an e-recruitment system; and
  - in the 2009 staff surveys 71% of respondents believe Brent is an equal opportunity employer and treat staff with fairness and respect.
- 24** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

---

# Glossary

---

## Annual governance statement

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

---

## Audit closure certificate

- 26** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

---

## Audit opinion

- 27** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
  - whether they have been prepared properly, following the relevant accounting rules.

---

## Qualified

- 28** The auditor has some reservations or concerns.

---

## Unqualified

- 29** The auditor does not have any reservations.

---

## Value for money conclusion

- 30** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Appendix 1 – Independent auditor’s report to Members of London Borough of Brent

## Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements and related notes of London Borough of Brent for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group 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 London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Director of Finance and Corporate Resources and auditor

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

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and

- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### Opinion

In my opinion:

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

Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Director of Finance and Corporate Resources and auditor**

The Director of Finance and Corporate Resources’s responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in

the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

### Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Brent made



proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White  
District Auditor  
Audit Commission  
Millbank Tower  
Millbank  
SW1P 4HQ  
[date]

## Appendix 2 – Amendments to the draft accounts

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

**Table 2**

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Bad debts written off Cr Council tax income	Reallocate bad debts written off to be correctly disclosed as expenditure in the Collection Fund	12,700	12,700		
To be updated	Adjustments arising from audit of Housing PFI scheme.				
Dr Expenditure Cr Creditors	Accounting for an unreconciled difference between the trial balance and financial statements of the Adult and Social Care department.	152			152
Dr Gross debit - NNDR Cr Other adjustments - NNDR	Correct disclosures in Collection Fund based on information submitted in NNDR grant claim (LA01)	90	90		
Dr Bad debt provision Cr Expenditure	Correct bad debt provision as methodology applied by Council, used the incorrect balance to calculate the provision	27	27		

		Income and Expenditure Account		Balance sheet	
Dr Prepayments Cr Land and Buildings	The Council has incorrectly classified lifecycle costs not yet incurred which are attributable to Willesden PFI	265	265		
Net impact on reported surplus		152			

## Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 3**

Description of error	Accounts affected	Value of error £'000
The Council has not been able to provide evidence of valuation or impairment review for the Willesden Leisure Centre. We have applied property indices to establish a possible overstatement in the year end balance.	Dr Impairment Cr Fixed assets	3,741
The Council has not been able to provide evidence to support some provisions. By their nature they seem reasonable, however without evidence we have limited assurance, therefore have to treat the balance as an uncertainty	Dr Provision Cr Expenditure (Housing)	200

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# Appendix 4 – Draft letter of representation

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To: Andrea White  
District Auditor  
Audit Commission  
Millbank Tower  
Millbank  
SW1P 4HQ

## London Borough of Brent - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts, Group Accounts and Pension Fund accounts included within the financial statements.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the attached appendix.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

### Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- 

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There

has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements. For assumptions included in notes 13, 20, 24, 27, 28, 37 and 38, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### **Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representations:**

We confirm that it is the Council's intention to hold investments classified as long term for a period extending beyond 12 months after balance sheet date.

### **Signed on behalf of London Borough of Brent**

I confirm that this letter has been discussed and agreed by the Council on 29 September 2010.

Signed

Name: Duncan Mcleod

Position: Director of Finance and Corporate Resources

Date

Signed

Name: Gareth Daniels



Position: Chief Executive

Signed

Name: Emad Al-Ebadi

Position: Chair of Audit Committee

Date

# Appendix 5 – Value for money criteria

KLOE	Met
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	-
Strategic asset management	Yes
Workforce	Yes

Natural Resources' applies to all bodies, other than ST & CCs (including London Borough of Brent) in 2009/10.

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2009/10 - Recommendations</b>					
9	Review accounting for PFI schemes to: <ul style="list-style-type: none"> <li>address key points in the contract and asset delivery; and</li> <li>variations to the contract.</li> </ul>	3				
9	Ensure all accounting entries and related disclosures comply with the LG SORP.	2				
10	PFI assets to be subject to: <ul style="list-style-type: none"> <li>annual impairment reviews, and</li> <li>included in valuation cycle.</li> </ul>	3				
10	Ensure supporting documentation is available to support all provisions, as required by FRS12.	2				
10	Perform and review control reconciliations on a monthly basis in Adult and Social care.	2				

Deleted: Appendix 3 –  
Unadjusted misstatements in  
the accounts

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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# Annual Governance Report

London Borough of Brent Pension Fund

Audit 2009/10

**As at 17 September 2010**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-



Ladies and Gentlemen

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

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

I discussed and agreed a draft of the report with the Director of Finance and Corporate Resources on 15 September 2010. I expect to issue a final version once my audit work has been fully concluded.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Andrea White  
District Auditor

17 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8

## Audit opinion

- 1 My audit is now nearing completion, however my work has yet to be completed in the following areas:
  - review of Pension Fund Annual report; and
  - my final review and audit completion processes.
- 2 Subject to the satisfactory completion of matters as set out above, I expect to complete my audit of the pension fund by the due date on 30 September 2010. Should there be any further matters I need to report to you following the completion of my audit work, I will do this via the Audit Committee Chair, the Chief Executive and the Director of Finance.
- 3 I have been provided with a draft of the Pension Fund Annual Report. I have not yet read the other information to be published with the annual report. Until I have done so, I am unable to certify that I have completed the audit. I expect to be able to complete my review of the Pension Fund Annual Report by 30 September 2010.

## Financial statements

- 4 The financial statements and notes submitted for audit were substantially complete although the accounts did not contain all of the disclosures in the format required by the Pension Fund Statement of Recommended Practice (SoRP). There were some errors identified during the course of the audit which were subsequently amended by management.

## Key messages

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### Audit fees

- 5** The fee for the Pension Fund audit is £35,000 as set in my 2009/10 Audit Plan issued in February 2010. I propose to increase this fee by £3,000 based on additional work to resolve issues and to follow-up matters where working papers were not complete. I will keep this under review until I complete the audit.

---

### Independence

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

---

# Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the Pension Fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

---

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

- consider the matters raised in the report before approving the financial statements (pages 4 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

---

# Financial statements

**The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of public funds. The Council has a 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

- 8** My audit is nearing completion. Subject to satisfactory clearance of outstanding matters, I expect to complete my audit of the pension fund by the due date of 30 September 2010. An example of an audit report containing an unqualified opinion is set out in Appendix 1. Please note that Appendix 1 is a report on the full set of financial statements, which incorporates the opinion on the Pension Fund. Those sections pertinent to the Pension Fund are on pages 14 and 15.
- 9** The outstanding areas are:
- review of the Pension Fund Annual Report: I have been provided with a draft of the Pension Fund Annual Report. I have not yet read the other information to be published with the annual report. Until I have done so, I am unable to certify that I have completed the audit. I expect to be able to complete my review of the Pension Fund Annual Report by 30 September 2010;
  - my internal review and audit closure processes cannot be completed until all audit fieldwork has been completed.

---

## Errors in the financial statements

- 10** I noted the following error in the financial statements:
- investment values - a number of investment values used in the financial statements were did not agree to the year-end values set out in custodian and fund manager reports. These adjustments decrease the surplus reported in the Fund Account by £783,000.

The above errors have been amended in the financial statements. Details of the amendments are included in Appendix 2.

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## Important weaknesses in internal control

- 11** Subject to the completion of my work, I have not identified any significant weaknesses in internal control that have not already been reported to you. However, I have identified the following control matters that I wish to bring to your attention:
- reconciliation of quarterly investment reports - there has been a change in the format of investment reports received by the Pension Fund. This change has resulted in the reconciliation of the quarterly investment reports and the accounting

recordings becoming more complex. The Pension Fund should ensure that these reconciliations are independently reviewed by senior officers to confirm the accuracy of the information presented to members;

- pension contributions and benefits payable - the Pension Fund relies upon the checks and controls performed by the London Pension Fund Authority (LPFA) to gain assurance that contributions received and amounts paid to pensioners are correct. The Pension Fund should introduce its own internal procedures to ensure that these checks are being performed;
- investment records - the Pension Fund relies upon the custodians to ensure records are agreed and reconciled to fund manager records. The Pension Fund should introduce its own internal procedures to ensure that these checks are being performed; and
- journal authorisation - journal forms are not approved by senior officers.

**12** I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters that have come to my attention because of the audit procedures that I have performed.

Recommendation	
<b>R1</b>	Independently review the quarterly investment report reconciliations to the accounting records.
<b>R2</b>	Introduce additional internal checks on pension contributions and benefit payments or arrange to obtain formal assurance from third party providers that the agreed checks have been performed.
<b>R3</b>	Reconcile reports from custodians to fund manager reports and the general ledger and ensure that the reconciliations are independently reviewed and signed off by officers.
<b>R4</b>	Arrange for all journals to be formally approved by officers.

### Letter of representation

**13** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

### Key areas of judgement and audit risk

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

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p><b>Unquoted Investments</b></p> <p>The valuation of unquoted investments is potentially a very complex area. There are risks around accurate valuation at the year end.</p>	<p>My work on unquoted investments identified private equity investments had been reported at their valuation as at 31 December 2009 instead of 31 March 2010. The Pension Fund does not receive the valuations as at 31 March 2010 until after the accounts are presented for audit.</p> <p>Management have subsequently provided me with evidence to confirm that there was not a material difference in valuation of these funds between these dates.</p> <p>However, in future management should formally estimate changes in valuation up to 31 March and reflect this in the financial statements.</p>
<p><b>Investment Commitments</b></p> <p>The Pension Fund accounts are required to disclose the value of outstanding investment commitments. There are risks regarding the completeness of the disclosures in the accounts.</p>	<p>I have reviewed the details of investment commitments of £78m included within note 9 of the 2009/10 accounts presented for audit.</p> <p>My testing identified an error in the value of investment commitments. Management have agreed to amend the accounts to show investment commitments of £98m.</p>
<p><b>Pension Fund Statement of Recommended Practice (SoRP)</b></p> <p>The Pension Fund accounts are required to be fully compliant with the Pension Fund SoRP.</p>	<p>My work identified that the 2009/10 accounts presented for audit did not contain all of the disclosures required by the Pension Fund SoRP.</p> <p>Management have agreed to amend the accounts to include the required information.</p>

Recommendation
<p><b>R5</b> Estimate changes in market value of private equity investments up to 31 March each year as part of preparing the financial statements.</p>
<p><b>R6</b> Undertake a comprehensive review of the accounts as part of the year-end closedown arrangements to ensure compliance with the Pension Fund SoRP.</p>

### Accounting practice and financial reporting

**15** I consider the non-numeric content of your financial reporting. The issues I want to raise with you are detailed below:

- investment categories - investments have not been analysed in the format required by the Pension Fund Statement of Recommended Practice (PF SoRP). The PF SoRP requires investments to be analysed into the following categories: fixed interest securities, equities, index-linked securities, pooled investment vehicles, derivative contracts, property, insurance policies, loans, other investments, cash, and other investment balances.
- disclosures - the accounts did not include all of the disclosures required by the Pension Fund Statement of Standard Practice.

Recommendation	
<b>R7</b>	Disclose investments in the format required by the Pension Fund Statement of Recommended Practice.
<b>R8</b>	Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.



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# Glossary

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## Annual governance statement

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

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## Audit closure certificate

**17** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

**18** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

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## Qualified

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

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## Unqualified

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

# Appendix 1 – Independent auditor's report to the Members of the London Borough of Brent Council

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## **Opinion on the Authority and Group financial statements**

I have audited the Authority and Group accounting statements and related notes of the London Borough of Brent for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group 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 the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## **Respective responsibilities of the Director of Finance and Corporate Resources and auditor**

The Director of Finance and Corporate Resources responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements

## Appendix 1 – Independent auditor's report to the Members of the London Borough of Brent Council

and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword and Annual Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### **Opinion**

In my opinion:

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

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Director of Finance and Corporate Resources and auditor**

The Director of Finance and Corporate Resources responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and

## Appendix 1 – Independent auditor's report to the Members of the London Borough of Brent Council

Annual Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

### **Opinion**

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### **Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in

May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, the London Borough of Brent made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White  
District Auditor

Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

30 September 2010

# Appendix 2 – Amendments to the draft pension fund's accounts

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

**Table 2      Amendments to the draft pension fund's accounts**

		Fund Account		Net Asset Statement	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Change in MV of investments Cr Investments	Overstatement of investment values.	783			783
<b>Net impact on Fund Account</b>		<b>783</b>			

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# Appendix 3 – Draft letter of representation

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To: Andrea White

District Auditor  
Audit Commission  
1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

## **London Borough of Brent Pension Fund - Audit for the year ended 31 March 2010**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Brent Pension Fund, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

## **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.



### Contingent assets and contingent liabilities

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

We confirm that this letter has been discussed and agreed by the Audit Committee on [xx] September 2010.

Signed .....  
Name Duncan McLeod  
Position: Director of Finance and Corporate Resources  
Date .....

Signed .....  
Name Gareth Daniel  
Position: Chief Executive  
Date .....

Signed .....  
Name Emad Al-Ebadi  
Position: Chair of the Audit Committee  
Date .....

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## Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2009/10 - Recommendations</b>					
8	<b>R1</b> Independently review the quarterly investment reports to the accounting records.	3	Bina Chauhan-Wild	Agreed	Reconciliations will be formally signed off each quarter.	Ongoing
8	<b>R2</b> Introduce additional internal checks on pension contributions and benefit payments or arrange to obtain formal assurance from third party providers that the agreed checks have been performed.	2	Andrew Gray	Agreed	Assurance of checks will be obtained from the LPFA.	March 2011
8	<b>R3</b> Reconcile reports from custodians to fund manager reports and the general ledger and ensure that the reconciliations are independently reviewed and signed off by officers.	3	Martin Spriggs	Agreed	Reports will be reviewed on an annual basis to ensure agreement.	Ongoing
8	<b>R4</b> Arrange for all journals to be formally signed-off by officers.	3	Bina Vhauhan-Wild	Agreed	Journals will be formally signed off.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	<b>R5</b> Estimate change in market value of private equity investments up to 31 March each year as part of preparing the financial statements.	2	Marting Spriggs	Agreed	Valuations will be assessed at the year end to ensure accounts are accurate.	May 2011
9	<b>R6</b> Undertake a comprehensive review of the accounts as part of the year-end closedown arrangements to ensure compliance with the Pension Fund Statement of Recommended Practice.	2	Marting Spriggs	Agreed	This is an ongoing task.	June 2011
10	<b>R7</b> Disclose investments in the format required by the Pension Fund Statement of Recommended Practice.	3	Marting Spriggs	Agreed	This is an ongoing task.	June 2011
10	<b>R8</b> Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.	3	Marting Spriggs	Agreed	This is an ongoing task.	June 2011

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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	<p style="text-align: center;"><b>Audit Committee</b> 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
<p>For Information</p>	<p style="text-align: right;">Wards Affected: ALL</p>
<p><b>Report Title: Audit Commission review of council arrangements in respect of Copland School</b></p>	

## 1. Summary

- 1.1. This report introduces the Audit Commission's report on the council's arrangements in respect of Copland School both prior to and subsequent to receipt of allegations of financial mismanagement. This report provides some additional background to the arrangements and sets out the council's response to the recommendations made.

## 2. Recommendations

- 2.1. To note the report from the Audit Commission and the Council's response to the recommendations.

## 3. Detail

- 3.1. The Audit Commission report is attached at Appendix A. Andrea White the District Auditor will attend the meeting to introduce the report.
- 3.2. Copland School was the subject of a major internal investigation by the council's Audit and Investigations Team in 2009, following receipt of a number of allegations concerning financial mismanagement at the school. In response to these allegations the Audit Commission conducted a review of its own utilising the Council's investigation as base document. The Audit Commission have reported on arrangements as part of their responsibilities to review and report on the Council's financial statements, its statement of internal control, and to report on whether the Council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 3.3. Whilst the report is positive regarding the council's response to the allegations, it highlights some weaknesses of the council's arrangements for audit and monitoring of the school in the period preceding the investigation. The principal concern relates to the council allowing Foundation Schools to continue with their own external audit arrangements without ensuring that

those arrangements included a review of internal controls. Although Internal Audit sought to impose these requirements within the terms of engagement for external audit suppliers, by advising Head Teachers accordingly, on an annual basis, it is apparent that this did not happen in the case of Copland.

- 3.4. Since the return of foundation schools to local authority oversight from September 1999, government guidance has always, specifically, required that schools be allowed to procure an independent external audit certification of their accounts. Essentially this requires an external auditor to verify that the school's accounts provide a true and fair view of its financial position. Most foundation schools wished to continue with their arrangements for external audit following return to local authority oversight. Given this required a yearly visit from an external audit firm and would represent more coverage than three yearly internal audit reviews, it was considered prudent for this to continue with an additional review of internal controls, thus covering internal audit requirements.
- 3.5. It is now evident that this arrangement, due to the limited terms of engagement, did not provide sufficient assurance in relation to Copland School. Shortly after receipt of the allegations, the Director of Finance and Resources had directed that all Foundation Schools would fall within the remit of Internal Audit as from April 2009. These schools were brought back into the Internal Audit Plan from 2009/10 and a number of audits have since been completed. Internal Audit has also conducted the Financial Management Standard In Schools (FMSiS) assessment for those secondary schools that were due for reassessment in 2010. Schools are no longer free to choose an external provider for this assessment.
- 3.6. The report sets out a number of recommendations for improvement. These are set out below with the council's response and action plan.

<b>Recommendation</b>	<b>Response</b>	<b>Responsible Officer (s) and timescale</b>
The council should apply risk management techniques to assess whether more checks for higher risk schools are needed.	Agreed - Internal Audit and the Children and Families Department will work together to identify higher risk schools, through the schools causing concern forum or through local intelligence and, where appropriate, conduct internal audits or other checks as necessary	Head of Audit and Investigations, Assistant Director of Finance (Children and Families)  Ongoing
Check that all audit work undertaken by external audit suppliers complies with the required scope, including a review	Not applicable – The council has brought the provision of internal audit back in house and external audit suppliers will no longer be used to provide this service.	



<b>Recommendation</b>	<b>Response</b>	<b>Responsible Officer (s) and timescale</b>
of controls.		
Ensure that it receives and reviews all audit reports from external suppliers;	Agreed – Some schools may wish to continue with their external audit arrangements for the purposes of certifying their accounts, although this is not a requirement. In such cases, Internal Audit will continue to receive the audit opinion and copy of accounts	Head of Audit and Investigations  Ongoing
Act on any audit findings, including qualified audit opinions, including feeding this information into the risk assessment;	Partially Agreed – For those schools who choose to continue with their own external audit, Internal Audit will review the qualified opinions and feed these into the risk assessment where appropriate. It should be noted that some qualifications relate purely to technical accounting matters which have no relevance to internal control and would have no impact upon the perceived risks.	Head of Audit and Investigations  Ongoing
Ask that all schools provide minutes for review, identify those which do not comply and feed the results into the risk assessment;	It has always been standard practice to request that all schools submit copies of their governing body minutes to the Governor Services Team within Children and Families. Compliance with this has been variable however and it is agreed that this will now be more closely monitored and fed into the risk assessment with firmer follow up for schools that do not comply.	Head of Governor Services. Ongoing.
Undertake regular benchmarking of schools data, to identify anomalies for investigation, and feed this into the risk assessment;	Schools financial returns have been subject to reasonableness checks such as comparisons to budget shares, and comparisons to previous period's data. It is agreed that a regular process of benchmarking with other similar schools will be done on a termly basis.	Assistant Director – Finance, Children and Families. Ongoing.
Monitor participation in governor training and feed the results into the risk assessment.	Agreed	Head of Governor Services, Children and Families. Ongoing

**4. Financial Implications**

4.1. None

**5. Legal Implications**

5.1. None

**6. Diversity Implications**

6.1. None

**7. Background Papers**

7.1. The Audit Commission report on the council's arrangements regarding Copland School is attached at appendix 1.

**8. Contact Officer Details**

Simon Lane, Head of Audit & Investigations, Room 1, Town Hall Annexe.  
Telephone – 020 8937 1260

**Duncan McLeod**  
**Director of Finance and Corporate Resources**

# Review of Council arrangements in respect of Copland School

Brent Council

Audit 2009/10

September 2010



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

# Purpose and status of this report

- 1 This report sets out my review of the Brent Council's arrangements for the proper administration of schools' financial affairs. I was alerted to concerns about the Council's arrangements following issues arising at Copland School, a state funded foundation school within the Council's jurisdiction.
- 2 I am the auditor of the Council; I am not the auditor of the School. My review focuses solely on the arrangements at the Council and on their response following the receipt of allegations about the School.

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# Background

- 3 In April 2009 I received allegations of financial mismanagement and undue patronage thought to be occurring at Copland School.
- 4 In the context of my responsibilities, I made enquiries at the Council. I found the Council had also received a copy of the allegations and that it had asked its internal auditors to carry out a detailed investigation. I satisfied myself that the scope of the Council's investigation covered all aspects of the allegations. I decided that I should wait for the outcome of the Council's investigations before deciding what more action I should take.
- 5 Following an initial review, internal audit quickly established there was substance to the allegations. Based on early findings the Council took action to suspend the School's delegated budget, suspend the schools Head, Deputy Head and Bursar, and appoint an Interim Executive Board (IEB) to govern the school.
- 6 The detailed investigation was completed in October 2009. The findings confirmed the School's finances were mismanaged over several years, and specifically that:
  - bonuses and extra payments were awarded to teachers outside the scope of statutory terms for teachers' pay;
  - some members of staff were promoted without proper reason;
  - national rules for deciding the pay of non-teaching staff were not applied;
  - school funds were used inappropriately for social events and loans to staff; and
  - financial record keeping was inadequate.
- 7 Internal audit also found there was a culture of nepotism and patronage within the School and that overall, there was a general disregard for proper financial management.
- 8 Following completion of the investigation the findings have been reviewed and considered by the School and the Council. The School took disciplinary action against those involved. The Deputy Head was dismissed. Others involved resigned before the disciplinary action could be concluded. The Council has now referred matters to the police. Both the School and the Council continue to take legal advice about what further action, if any, to take.

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## My role and responsibilities

- 9 As the auditor of the Council, my responsibilities are to review and report on the Council's financial statements, its statement of internal control, and to report on whether the Council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Background

- 10** In line with my responsibilities, the focus of my work was whether the Council had suitable arrangements in place to carry out its responsibilities for the School, and whether those arrangements worked properly in practice.
- 11** The approach I adopted involved:
- reviewing the nature, scope and findings of the investigation carried out by the Council's internal auditors;
  - interviewing Council officers including the Director of Finance and Corporate Resources, Head of Audit and Investigations, finance officers from Children and Families and the Borough Solicitor;
  - assessing the Council's internal controls over school expenditure and compliance with the Council's financial instructions;
  - reviewing relevant documents, including reports and minutes;
  - reviewing financial instructions and guidance to schools issued by the Council;
  - reviewing the actions taken by the Council to address the issues identified in the investigation; and
  - seeking my own legal advice where appropriate.
- 12** In carrying out my review I have had regard to the following.
- Relevant legislation, specifically the Education Act 2002, the Local Government Act 1972 and the Accounts and Audit Regulations 2003.
  - Department of Children, Schools and Families Code of Practice on Local Education Authorities – School relations.
  - The Financial Management Standard for Schools published by the Department for Children, Schools and Families.
  - Relevant publications by the Chartered Institute of Public Finance and Accountancy (CIPFA), specifically its Statement on the Role of the Finance Director and Introductory Guide to Education Finance 2008.

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## The role of the School

- 13** A foundation school has greater freedom than other types of state schools. The governing body owns the school's land and buildings, employs the school's staff and has responsibility for admissions to the school, subject to rules imposed by central government. Schools' capital and running costs are met by central government.
- 14** For a foundation school the governing body consists of parent governors (elected by parents), staff governors (elected by staff), Local Authority governors (appointed by the council), community governors and foundation or partnership governors (appointed by the governing body).
- 15** The statutory responsibilities of a governing body are set out in section 21 of the Education Act 2002. The governing body has a statutory responsibility for the oversight of most areas of school life, including financial management.

- 16 The school governors appoint and performance manage the head teacher, who is responsible for the running of the school, within the framework set by the governors.
- 17 Copland School receives funding from government through the Dedicated Schools Grant, administered by Brent Council. The Council gives an annual budget to the School based on a schools local funding formula. Schools make their own decisions about how to spend their budgets.

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### **The role of Council**

- 18 Section 151 of the Local Government Act 1972 requires every local authority to arrange for the proper administration of their financial affairs and requires one officer to be named and to take responsibility administering those affairs. The 'Section 151 officer' is usually the local authority's treasurer or finance director and must be a qualified accountant. The Section 151 officer has several statutory duties, including the duty to report any unlawful financial activity involving the council or a failure to set or keep to a balanced budget.
- 19 Foundation schools are managed autonomously by their own governing bodies; at the same time they are part of the relevant 'local authority' (the Council in this case). This means the Council has responsibility under section 151 of the Local Government Act 1972 to 'make arrangements for the proper administration' of the schools' financial affairs.
- 20 Also, the Accounts and Audit Regulations 2003 require a local authority to 'maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper audit practices.' CIPFA's Statement on the Role of the Finance Director makes it clear the responsibility for maintaining an adequate and efficient internal audit system rests with the finance director of the local authority.
- 21 The Council reports on its governance arrangements each year in an Annual Governance Report. The report includes a review of the effectiveness of its system of internal control.
- 22 To help finance directors, school governing bodies and other interested parties, in 2004 the government introduced the Financial Management Standard for Schools (FMSiS). Achievement of the Standard shows that a school has, at least, the minimum standard of financial management. Initially adoption of the Standard was a matter for the school. However, FMSiS became a compulsory requirement to be met by all secondary schools by 31 March 2007. All schools were required by law to meet the Standard by March 2010.



# The Council's arrangements to ensure the proper administration of the School's affairs

- 23 Copland School was considered by the Council to be a successful school. Therefore, the School was given a high level of autonomy from the Council. This approach was in line with guidance from the Department of Children, Schools and Families (DCSF). In the DCSF *Code of Practice on LEA - School Relations*, councils are advised to let successful schools be as autonomous as possible and not to intervene unnecessarily. Council's are required to allow schools to obtain external audit certification of its accounts, separate from any authority internal or external audit process.
- 24 Until the issues at Copland School came to light, the Council believed its governance arrangements were sufficient to discharge its school responsibilities. A lighter touch was taken with successful schools in line with DCSF guidance. This was the case at Copland School.
- 25 On the face of it the Council was justified in its approach. A qualified accountant held the post of Bursar. The School achieved Financial Management Standard in Schools (FMSiS) following an independent accreditation process. Checks the Council carried out at the time did not highlight any concerns. Ofsted reviewed and reported on Copland School in 2000 and 2006. The reports raised no significant issues. Copland's 2000 Ofsted report included positive comments about financial management. The 2006 did not touch on financial management to any significant extent.
- 26 However, there were some key weaknesses in the Council's arrangements. Had the arrangements been working properly, the Council may have been alerted to management failings within the School at an earlier stage.

## Audit

- 27 The Council required all its schools, including Copland, to agree to a regular internal audit. The audit was required to cover compliance with regulations, financial management and control and internal control.
- 28 Foundation schools had historically appointed their own auditors to audit their annual accounts (an 'external audit'). The external audit of foundation schools stopped as a requirement in 1999 when grant maintained schools were brought back under the umbrella of local councils. However, where schools had an existing relationship with an external audit provider, and wished to continue with this arrangement, this was allowed providing the school ensured the external audit provider covered the Council's internal audit requirements. On this basis the School continued with its existing audit arrangements.

- 29** The School elected to appoint its own auditors, a medium sized accountancy firm with appropriate auditing experience. The audit, as agreed by the School, covered the School's annual accounts and an opinion on whether the School complied with the applicable regulations and whether the accounts give a true and fair view<sup>1</sup> of the School's affairs. But, despite regular reminders from the Council about internal audit requirements, the audit, as agreed by the School with its auditors, did not appear to cover the all aspects of the Council's requirements.
- 30** The Council wrote to its foundation schools every year to highlight internal audit requirements and to obtain copies of audited accounts and management reports. When the Council did not receive management reports from the School's auditor, the Council checked the audit took place by telephone call to the School but did not insist on a copy of the audit engagement letter or any written management reports. Therefore the Council was not aware the external auditor's work did not fulfil the required scope.
- 31** In 2007/08, and in previous years, the auditor issued a 'qualified' audit opinion. This means that the auditor was not satisfied, in all respects, that the accounts showed a true and fair view. The qualification related to how the School accounted for capital expenditure. It charged this expenditure to its income and expenditure account rather than recording an increase in the fixed assets on its balance sheet as required by accounting standards. The qualification did not relate to financial management or salaries and the Council viewed the qualification as a 'technical' qualification. However, the Council could have considered the School was a higher risk because of the qualified accounts, and it did not make any enquiries or take any action in response to the qualified opinion.

### **Financial management requirements**

- 32** In addition to FMSiS accreditation as mentioned above, the Council provided schools with a Scheme for Financing Schools every year, and required them to adopt it. The Scheme includes financial regulations schools must comply with. Compliance with the Scheme would normally be reviewed as part of the internal audit programme of checks. However, as the School did not appear to have commissioned the full scope of internal audit review, these checks were not undertaken.

### **Oversight**

- 33** The Council's arrangements consisted of:
- internal audit arrangements as described above;
  - reviewing minutes of governing bodies. The Council required all schools to submit minutes of school governor meetings. However, the Council did not check that all minutes were provided and reviewed;
  - undertaking reasonableness checks of year end figures received from schools, including comparing totals to the Council's own record of what the school had spent, and reviews of different categories of spending;

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<sup>1</sup> A judgement on whether the accounts comply with generally accepted accounting principles and standard accounting practices.

## The Council's arrangements to ensure the proper administration of the School's affairs

- holding regular meetings with schools to review governance and performance issues, financial management and financial standing and internal audit findings. Each school is rated by the Council based on the robustness of school arrangements, the knowledge and expertise of the Bursar and financial performance; and
- providing governor training and support. Participation was not compulsory and not monitored.

# The Council's response once it was alerted to the Schools failings

- 34** The Council acted swiftly and decisively once the Council was alerted to the School's failings:
- a full investigation was commissioned;
  - the then Head Teacher, Deputy Head teacher and Bursar were suspended;
  - the Council suspended the School's delegated budget and took over the responsibility for the day to day financial management of the School;
  - a letter was sent to the then School governors highlighting the areas of concern and seeking their comments; and
  - an experienced Acting Head Teacher was appointed whilst the investigation was underway.
- 35** Those responsible were held to account and replaced. A new governing body was appointed. A new Head has been appointed.
- 36** Internal audit and FMSiS accreditation for foundation schools is now being undertaken by the Council's internal audit function. The Council is working with the School to ensure financial management is strengthened.

# Conclusions

- 37** Even though foundation schools have a high level of autonomy, the Council retains a responsibility over the proper administration of schools' affairs. This includes ensuring that satisfactory systems of internal control are in place and there is an effective internal audit.
- 38** There were some key weaknesses in the Council's arrangements and how they were applied.
- Although checks are made to ensure compliance with the Council's Scheme for Financing Schools through internal audit, the School did not have satisfactory internal audit coverage therefore this control did not work in practice.
  - The Council did not check the scope of audit coverage met its requirements at schools who kept their external auditors. The scope of the School's external audit engagement was limited to the audit of the accounts. It did not appear to cover all aspects of the Council's internal audit requirements.
  - The Council did not adequately consider the form and content of the audit opinion given by the School's external auditors, and the risks arising from qualified opinions.
  - The Council does not check that all school meeting minutes are provided and reviewed.
  - Whilst the Council has enough information to benchmark schools against one another, it does not routinely undertake benchmarking. It could usefully undertake some regular benchmarking of schools, which would be a more valuable control in identifying irregularities.
  - The Council did not monitor or assess the take-up of or attendance at training provided for governors.
- 39** Had satisfactory arrangements been in place, the Council could have been alerted to management failings within the School at an earlier stage.
- 40** Once the Council was alerted to the School's failings it acted swiftly and decisively to ensure that those responsible were held to account and suitably replaced. The Council has already recognised that their arrangements did not work effectively and has taken action to strengthen its arrangements.
- 41** I recommend that the Council:
- apply risk management techniques to assess whether more checks for higher risk schools are needed;
  - check that all audit work undertaken by external audit suppliers complies with the required scope, including a review of controls;
  - ensure that it receives and reviews all audit reports from external suppliers;
  - act on any audit findings, including qualified audit opinions, including feeding this information into the risk assessment;

- ask that all schools provide minutes for review, identify those which do not comply and feed the results into the risk assessment;
- undertake regular benchmarking of schools data, to identify anomalies for investigation, and feed this into the risk assessment; and
- monitor participation in governor training and feed the results into the risk assessment.

**42** Both the School and the Council continue to take legal advice about what further action, if any, to take.

# Consideration of whether to issue a Public Interest Report

- 43** It is my duty under section 8 of the Audit Commission Act 1998 to consider whether to make a public interest report on any matter coming to my notice during my audit. A public interest report aims to ensure councils consider matters of importance or to bring important matters to the attention of the public.
- 44** From the outset, the issues about the School were widely reported in the local and national media, reflecting the public interest. During the course of the investigation, the Council has issued press releases to keep the public informed. I am satisfied that the Council recognises its own failings, as reflected in the Council's 2008/09 Annual Governance Report, published by the Council on their website.
- 45** I have therefore decided not to issue a public interest report as the matters are already in the public domain. The Council has already taken action to address the failings at the School and to strengthen its own arrangements.

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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	<p style="text-align: center;"><b>Audit Committee</b> 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
For Information	Wards Affected: ALL
<b>Report Title: Audit Commission Documents</b>	

## 1.0 Summary

- 1.0 This report includes a number of documents produced by the Audit Commission in their role as the Council's external auditors.

## 2.0 Recommendations

- 2.1 The Audit Committee is asked to consider the documents and instruct officers of any actions they require to be taken as a result.

## 3.0 Detail

- 3.1 The documents attached to this report are as follows:

(i) Appendix A - Progress Report September 2010

The purpose of this report is to brief the Audit Committee on work currently planned or undertaken by the Audit Commission. This includes a Review of the One Council Project (Appendix 3 of the document). Appendices 4 and 5 set out recent central government announcements in respect of the Audit Commission.

(ii) Appendix B - Health Inequalities

The report reviews actions taken by NHS Brent and the Council to address health inequalities.

## 4.0 Financial Implications

- 4.1 The audit fee will be met from current budgets.

## **5.0 Legal Implications**

5.1 None

## **6.0 Diversity Implications**

6.1 The Health Inequalities report highlights a number of issues which are set out in Appendix B.

## **7.0 Background papers**

7.1 As listed above

## **8.0 Contact Officers**

Duncan McLeod, Director of Finance and Corporate Resources, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD, Tel. 020 8937 1424.

DUNCAN McLEOD  
Director of Finance and Corporate Resources

# Progress Report

## September 2010

Brent London Borough

Audit 2009/10

**Audit Committee 30 September**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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# Summary

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## Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

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## Audit Progress

- 2 Our 2009/10 audits of the Council and its Pension Fund are almost complete. The 2009/10 Annual Governance Reports are included on the Agenda for the Audit Committee's consideration. The reports were agreed with the Director of Finance and Corporate Resources and officers have agreed to complete the action plan. This summarises our progress on the audits of the financial statements.
- 3 We have finalised all of our performance reviews detailed in our Audit plan. These are detailed below:
  - We carried out a high level review of the Council's One Council project. Good progress has been made on the project, with positive investment in project management and internal skills development. Risks have increased by bringing forward the savings targets from four to two years in order to address challenges of reduced public sector funding. This report is attached as an appendix to the progress report.
  - Our joint review of Health Inequalities identified strong commitment from the Council and NHS Brent to tackle health inequalities, supported by strong leadership. Challenges include ongoing monitoring of progress against actions, particularly in light of reduced public sector funding. This report is included on the agenda for the Audit Committee.
- 4 The District Auditor has completed her review of the Council's arrangements in respect of Copland School. Her report has been agreed with the Chief Executive and the Director of Finance. A copy is included on the agenda for the Audit Committee's consideration. The District Auditor decided not to issue a public interest report because:
  - the matters are already in the public domain; and
  - the Council has already taken action to address the failings at the School and to strengthen its own arrangements.

Fees relating to the consideration of matters under auditors' specific powers, including the appointment of legal or other advisors to auditors, are borne by the Council. Fees charged in relation to the Copland investigation amount to £40,500 excluding VAT.

### International Financial Reporting Standards

- 5 We have summarised the International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

#### International Financial Reporting Standards: accounting for employee benefits (July 2010)

- 6 Our latest briefing paper looks at the practical issues that authorities may face when accounting for employee benefits. In particular it considers issues arising from accounting for:
- short-term compensated absences; and
  - long-term disability benefits.
- 7 You can visit [www.audit-commission.gov.uk/IFRS](http://www.audit-commission.gov.uk/IFRS) for more information about IFRS and implementation work.

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### Recent Audit Commission announcements and publications

- 8 The Audit Commission has been abolished, effective from 2012, in a recent government announcement. We have included a copy of a letter sent to all bodies regarding the current position and immediate impact as an appendix to the progress report.
- 9 The Audit Commission has revised the approach to value for money. We have provided a copy of a letter sent to all bodies for the Audit Committee as an appendix to the progress report.
- 10 The Audit Commission produces a regular Councillors' Update. This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work. If you have not automatically received your copy of Councillors' Update, please subscribe via the following link: [Councillor Update newsletter - Audit Commission](#)

### Certifying claims and returns (July 2010)

- 11 Our first annual report of auditors' certification work in 2008/09, which is available to download from this page, covers claims and returns in England totalling £45.6 billion.
- 12 Auditors have found that most claims for grants and subsidies have been completed by councils in line with the terms and conditions set by grant-paying bodies. But there is room for improvement. Claims and returns were corrected by £54.5 million as a result of our auditors' work, which found errors or examples of non-compliance with grant terms and conditions. Auditors flag up these issues with claimant councils and those who pay grants.

### Scope for error

- 13 Housing and council tax benefits are a particular concern with 85 per cent of claims qualified, amended, or both by auditors. The report says the complexity of the system and large volume of transactions provides much scope for error. Common issues are difficulty with documentation to support payments to benefit claimants and data entry errors.

### Improving practices

- 14 Some authorities need to improve their practices. The number of qualification letters issued by auditors to authorities, signalling concerns with a claim or return, increased from 626 in 2007/08 to 673 last year: 24 per cent of claims and returns had qualification letters.
- 15 Authorities need to:
  - identify all claims and returns requiring auditor certification and agree a timetable for certification work with their auditor;
  - have effective quality assurance arrangements that ensure claims and returns are properly reviewed before sending them to the auditor;

- review scheme terms and conditions to ensure claims and returns are compiled correctly and evidence requirements are met; and
- keep full working papers to support the entries in claims and returns.

### Local Government Pensions in England (July 2010)

- 16 The Local Government Pension Scheme is the UK's largest public sector pension scheme by membership. In our latest information paper, we examine its long-term affordability, and find that although it is backed by local funds, recently investments have failed to deliver the anticipated returns, and the funds currently cover only about three-quarters of the scheme's future liabilities.
- 17 The paper, which is available to download from the Audit Commission website, is intended to inform Lord Hutton's inquiry into public sector pensions. In it, we suggest some actions that could be taken to put the Local Government Pension Scheme on a better financial footing, such as:
- Employee contributions could be raised, but tapered to discourage members on lower salaries from opting out.
  - Savings could be made by raising the normal retirement age and reducing the rate at which pension benefits are earned.
  - Local pension funds could be allowed more discretion to adjust the level of benefits offered to pension fund members.
  - Local government employers should keep liabilities in check by controlling wage costs.

### Against the odds (July 2010)

- 18 Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. Our new study looks at the financial, personal and social cost of teenagers who are so-called NEET - not in education, employment or training. The study has found that the problem may be worse than the annual 'snapshot' survey shows, but that a new approach can make scarce resources work harder for those at greatest risk.
- 19 The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.



# Appendix 1 – Key Deliverables 2009/10

**Table 1 Progress on Key Deliverables for 2009/10**

Product	Timing	Current position
<b>Planning</b>		
Audit Plan	January 2009- March 2009	Plan presented to Audit Committee in June 2009
<b>Opinion</b>		
Work on financial systems	December 2009 – June 2010	This complete. We have completed out Opinion plan and presented to Audit Committee in March 2010
Financial statements; <ul style="list-style-type: none"> <li>• opinion;</li> <li>• Annual Governance Report; and</li> <li>• opinion memorandum</li> </ul>	July - September 2010	This is in progress, and our Annual Governance Report (AGR) is included on the agenda for the Audit Committee.
<b>Use of Resources</b>		
Health Inequalities phase 1 phase 2	May 2010 October 2010	Phase 1 complete and report issued Phase 2 complete and report issued
Performance management follow up	June 2009 to December 2009	Review complete and report issued
HR follow up	December 2009 to February 2010	Review complete and report issued
Project management review	January 2009 to March 2010	Review complete and report issued
Value for money conclusion	June 2010 to September 2010	Our draft unqualified opinion is included in the AGR
Use of resource judgements	February to July 2010	This work was stopped based on the new government's direction

# Appendix 2 – Key deliverables 2010/11

**Table 2 Progress on Key Deliverables for 2010/11**

Product	Timing	Current position
<b>Planning</b>		
Audit Plan	January 2010- March 2010	Plan presented to Audit Committee in June 2010
<b>Opinion</b>		
Work on financial systems	December 2010 – June 2011	
Financial statements; <ul style="list-style-type: none"> <li>• opinion;</li> <li>• Annual Governance Report; and</li> <li>• opinion memorandum</li> </ul>	July - September 2011	
<b>Use of Resources</b>		
Building schools for the future		This will not take place as a result of the government cancelling the Brent projects.
Project management review		
Value for money conclusion	June 2011 to September 2011	
Use of resource judgements	February to July 2011	This is no longer applicable.
<b>Reporting</b>		
Annual Audit and Inspection Letter	December 2011	

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# Appendix 3 – Review of One Council project

## Background

- 20 Brent Council is implementing an ambitious and forward-looking transformation programme which seeks to deliver significant service improvements, reduce operating costs, and create a more efficient and streamlined council. The Council's four year Improvement and Efficiency Strategy was launched in 2008 and highlights three themes to drive improvement and create more effective use of the Council's resources:
- Brent One Council;
  - Raising performance and maximising efficiency; and
  - Delivering major projects.
- 21 The recently agreed Improvement and Efficiency Action Plan (2010-2014) identifies 35 projects, categorised as gold, silver or bronze. The plan aims to better integrate the way the Council delivers its services, and enable it to become more customer focused. The intention is to provide high quality services to customers in the most cost effective way. Implementation will involve a series of step changes and enable the Council to generate an anticipated £50 million in efficiency savings.
- 22 The transformation programme is a political priority and commands a high profile. It is committed to at elected member, chief officer and senior management level and will have wide and considerable implications for major frontline and support services, including property, ICT, and human resource activities. However, what was initially a four year improvement programme spanning 2010-2014 has now been brought forward two years and the timelines for delivery is 2012. By fast tracking the One Council cost reduction programme the Council aims to complete its planned service re-design and organisational restructure before relocating to new civic centre offices in 2013.
- 23 The Council has commissioned consultants Deloitte to provide external assistance and expertise during the programme's early stages, and ensure programme management skills are transferred to the Council team members.
- 24 The risks attached to a large change programme of this nature were highlighted in the Council's Audit and Inspection Plan for 2009/10, and the governance and control arrangements for managing the programme are the subject of this review.

## Approach:

- 25 Our review involves a high level assessment of Brent Council's programme management framework. This is in order to address the requirements under our Value for Money conclusion. It provides a snapshot of the project management structures

and control processes in place to March 2010. The interim assessment is based on available Use of Resources and supporting project management documentation obtained for the period ended 31 March 2010. The aim is to provide assurance that appropriate processes are in place, and highlight any risk areas that may impact on objectives.

### Summary of initial findings:

- 26 At the current time the programme has a medium / high inherent risk in that it is large, complex and its implementation will have a long-term impact on the Council's ability to deliver its core business. The Council has built up a track record of delivering change projects but these are not of a similar size and scale as the transformation programme. It acknowledges the need to invest in quality project management and further develop its internal skills. The Council has also brought forward its target date for achieving cost reductions and savings by two years and this will contribute significantly to the risks for achieving the targets it has set itself by 2012.
- 27 The programme risks are being partly mitigated by:
- strong leadership and a highly visible champion for change through the Chief Executive;
  - a clear and demonstrable business rationale for transforming the Council's services;
  - well documented and accessible implementation plans and guidelines;
  - a sound programme management framework with clear reporting hierarchies and information flows;
  - the adoption of a formal project management methodology;
  - a dedicated internal Programme Management Office and support team to manage and support the key projects and ensure seamless transition between the project implementation phases;
  - external expertise to help develop the programme and project management arrangements, co-ordinate the project stages, and provide training during the initial change transformation stage;
  - the anticipated savings and financial returns from the projects will act as a clear motivator for re-engineering the council's services;
  - the council has adopted a business case approach to ensure value for money is achieved on projects and help identify the potential risks; and
  - a dynamic internal communication campaign to raise staff awareness and promote understanding and buy-in.
- 28 However, it is not clear from the available evidence and work carried out to-date:
- how elected members are being actively involved in scrutinising and challenging the transformation processes and outcomes;

- what the impact of shortening delivery timescales will have on project capacity; and
- how the financial implications of individual projects are being monitored.

29 These issues are summarised below.

## **Governance**

- 30 The governance structures for managing the programme are generally well established, but at the time of reporting there was no evidence that the Council has defined a robust role for Scrutiny. Programme progress reviews include monthly and quarterly reporting to CMT and Cabinet respectively, and member challenge is believed to be through the Council's existing committee structures but this needs to be clarified. A proactive scrutiny role is important for monitoring the impact of the transformation programme particularly on those service areas important to vulnerable community groups.
- 31 The implementation plans include a benefits management system for tracking and reporting the anticipated benefits. The template includes SMART (specific, measurable, achievable, realistic and timed) criteria for evaluating whether a benefit has been achieved or not and the means of measuring success. This will be of particular importance for assessing the anticipated 'quick wins' over the short and medium term of the programme.
- 32 The standard of project documentation and guidelines is generally high. However, we noted that consideration of equalities issues were not featured in the project initiation documents, guidance notes, benefits templates, and in the project monitoring data assessed. We would expect to see equalities featured in the project business case and monitored by local project user groups, but these were not assessed. The absence of equality objectives is inconsistent with the Councils Level 4 Equalities Standard rating. Equalities consideration is of particular relevance if the transformation programme is to meet the needs of all parts of the community.

## **Resource management**

- 33 At the time of reporting the relevant project posts had all been assigned, but the high occurrence of staff secondment sourced from local teams and services is a concern. This together with the shortening of delivery timelines will mean a high number of project groups will be running concurrently, with the risk of local skills and competencies being spread too thinly. This could place an increased demand for qualified staff and project support and threaten the success of the larger projects. There is also a risk of initiative overload with officers not having the capacity to effectively deal with implementing 35 complex and competing projects. There is insufficient information on how this will impact on the workload of secondees and project staff, and whether there are contingency arrangements to ensure that key services important to vulnerable groups are adequately covered. The impact and risks are to delivering day to day services and to project delivery times slipping.

### Value for money

- 34 The review examined an early financial model that demonstrated ‘quick win’ vfm is being targeted by the Council. The financial model clearly outlined costs, savings and funding implications. This was supported by the proposal, which included the background, proposals, consideration of partners, risks and financial, legal, diversity and staffing implications. This was presented to the Executive, We have not been able to obtain an estimate of the spend to-date and total projected costs in terms of training, market testing, external advice and support, communications, and staff reductions etc. At the time of reporting we found no evidence of how the separate project budgets are being monitored or where and how frequently project cost items are being reported. As a result the financial governance arrangements and the longer term financial implications to the Council were not examined.
- 35 The Council has brought forward its four year target for saving £50 million from 2014 to 2012 and while significantly ambitious this is still considered to be a realistic target.

### Way forward

- 36 The move towards a seamless transformation in services is being linked to a step change in Brent’s culture. The Council’s work to date will provide a sound framework for delivering the identified target improvements. We will liaise with the Council to discuss the second stage of our review in October 2010. Further work will now be needed to assess:
- the Council’s progress in developing the change management skills required within the shortened timescale, without disruption to its business-as-usual workload;
  - how effectively the Council is applying change management techniques in the climate of intense change whilst avoiding staff change-fatigue;
  - what actions have been agreed (e.g. allocation of more resources, re-profiled programmes, repackaging of projects) to ensure the critical projects will deliver the bulk of anticipated savings; and
  - what further risks have been identified and how these are being mitigated.

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# Appendix 4 – VFM letter from the Audit Commission

9 August 2010

## **Change in approach to auditors' local value for money work**

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

## **New approach to local value for money audit work**

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.



For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

### **Impact on audit fees**

The new approach will mean a reduction in audit fees from 2011/12.

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

### **Next steps**

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely

Gareth Davies  
Managing Director, Local Government, Housing and Community Safety



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# Appendix 5 – Letter from Audit Commission

19 August 2010

Local authorities including fire and rescue authorities

Dear

You will have seen the announcement last Friday by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. The proposed abolition will be from 2012 and the Government has announced its intention to seek legislation in this session of Parliament.

I am writing to confirm that there is no immediate change to the audit arrangements for your authority. As you are aware, your auditor is currently completing the audit of your 2009/10 accounts and preparing the accompanying annual audit letter.

I recently wrote to you outlining our proposed approach to the value for money element of the 2010/11 audit and this remains our planned approach. That letter also said that we will confirm the final position on 2010/11 audit fees following our September Board meeting.

We are in discussion with the Department about the proposed legislation and the details that will need to be worked through. I will write to you again in due course about the future audit programme and any changes to audit arrangements.

Yours sincerely

Gareth Davies

Managing Director Local Government & Community Safety

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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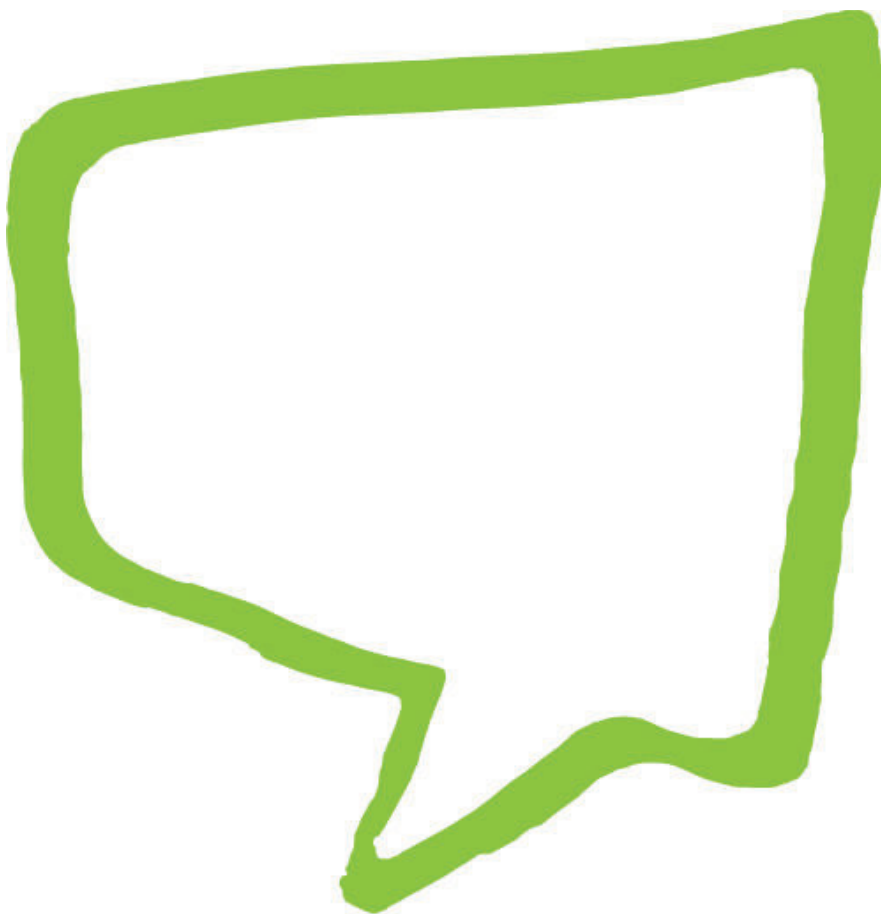
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# Health inequalities

Brent London Borough Council and Brent Teaching  
Primary Care Trust

Audit 2009/10

September 2010



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary report

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## Audit approach

- 1 The audit review was undertaken in two stages. Our initial work comprised:
  - interviews with key staff and partners; and
  - document reviews.
- 2 The first stage of the review was undertaken in late 2008 and reported in the early part of 2009 in a written report highlighting key strengths and potential risks. In July 2009, major partners held a stakeholder engagement event which reviewed actions on health inequalities. The Audit Commission's report findings were shared at this event. Our findings were subsequently presented to the Audit Committee of NHS Brent (the PCT) and the Health Overview and Scrutiny Committee of the London Borough of Brent (the Council).
- 3 The Corporate Area Assessment (CAA) undertaken in 2009 noted some specific aspects of health in Brent. This included high levels of Diabetes and Tuberculosis.
- 4 The second stage of our review (agreed in a separate project brief in late 2009) assessed how key stakeholders were addressing the risks identified in the first stage of the review. It also reviewed the arrangements in place to ensure delivery of the health inequalities programme. We extended our review to include how partners in Brent were working to address Diabetes and Tuberculosis - issues noted in the 2009 CAA review.
- 5 The fieldwork for the second phase of our review was undertaken in early 2010 and our emerging findings reported as a presentation to key stakeholders in April 2010. The agreed presentation is attached as appendix 1.
- 6 This final report brings together an updated summary of the stage one review, the presentation from phase 2 and the action plan and progress to date.

## Acknowledgement

- 7 The PCT and the Council have both worked with us to gain some objective insight into its arrangements for addressing health inequalities, and we are grateful to staff and partners for their cooperation.

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## Introduction

- 8 Health inequalities are a key issue for both the Department of Health and the Department for Communities and Local Government. The gap in life expectancy between those at the top and bottom of the social scale is wide and has grown since the 1970s.
- 9 The Local Government Act 2000 places a duty on local authorities to promote the social, economic and environmental wellbeing of their area. The NHS operating framework for 2007/08 required Primary Care Trusts (PCTs) and local authorities to work together in partnership for the benefit of taxpayers and patients.
- 10 While some action is being taken nationally, the main contribution is made locally. Local authorities and PCTs know that they must act together if they are to address this issue and use their resources effectively. In many areas joint plans to address health inequalities will form part of the Local Area Agreement (LAA). Introducing local data on all age all cause mortality provides the incentives for effective partnership working between PCTs, local authorities and other partners that need to deliver the life expectancy aspects of the health inequalities target. It will also give flexibility for organisations to focus on the interventions that are most important to their local population.

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## Background

- 11 The London Borough of Brent is one of only two local authorities serving a population where most people are from ethnic minorities. Up to 8 per cent of residents are classed as refugees or asylum-seekers. The population is growing and dynamic with recent figures showing significant numbers of people moving into the borough creating new emerging communities, as well as significant numbers of transient people within the borough. Brent's official ONS population forecast in 2006 was around 270,000, although Council commissioned research suggests that this figure could be at least 10,000 higher and is growing strongly. Almost a quarter of residents are under 19 years old and, within the five renewal neighbourhoods, a third of residents are under 16 years old, compared with a fifth in London.
- 12 While some sections of Brent are relatively well-off, many residents experience high levels of deprivation and low incomes. The 2007 Index of Multiple Deprivation places Brent within the 15 per cent of most deprived local authorities in the country. The neighbourhoods experiencing the highest deprivation are largely found in the south of the borough, although this is changing with high levels of deprivation now seen in some pockets in the north of the borough. The most deprived residents also have the lowest income levels, highest unemployment levels, poor and overcrowded housing and the worst health outcomes across the borough. Men from the least deprived areas can expect to live over nine years longer than those in the most deprived areas and this gap has remained constant in recent years.

## Summary report

13 The first review identified the following key strengths.

- Clear strategic commitment from key partners to tackle health inequalities.
- Key individuals are strongly supportive of actions to lessen health inequalities for Brent.
- Key partnerships have been identified to tackle health inequalities.
- The Joint Strategic Needs Assessment (JSNA) provides a sound and shared foundation for work on reducing health inequalities.
- High-level commitment to performance managing health inequalities actions.

### Key risks

14 The first review identified the following areas of risk.

- How can the sponsorship of health inequalities projects be made more explicit rather than implicit?
- How can the effectiveness and impact on health inequalities of the Overview and Scrutiny Committee be maintained?
- What actions are available to support engagement of the provider trusts in tackling health inequalities?
- How can partnership arrangements be further developed with the voluntary sector and service users and carers?
- What further refinement might be required to ensure the needs of all diverse communities are effectively captured?
- What possibilities exist to use of all the wider workforces to contribute effectively to reductions in health inequalities?
- Is extra Public Health capacity required to support the overall work programme?
- Where could further performance management framework support actions relating to health inequalities?
- What further data is required to monitor performance and demonstrate impact?
- How can a clear plan or cross-cutting approach towards corporate responsibility help the wider determinants of health across all departments and organisations?

15 The key risks identified in the first phase of the review were adopted by the PCT and the Council. An action plan to address these risks has been developed internally and is being monitored by the Health and Wellbeing Steering Group. The action plan capturing progress made to date is attached as appendix 2.

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## Main conclusions

- 16 Our second stage review confirmed the clear strategic commitment from the Council and NHS Brent to tackle health inequalities. There is broad and shared understanding between local government and NHS partners that addressing health inequalities is a key issue for Brent. The Health and Wellbeing Strategy 2008 to 2018 represents a broad based approach capturing the ambitions and priorities for the Local Strategic Partnership (LSP) for improving the health and wellbeing of Brent's residents and their families. Previously, tackling health inequalities was not consistently embedded in other key strategies and the focus on outcomes was variable. The overarching strategic approach enables partners to work together to address health inequalities through agreed priorities and actions.
- 17 There is strong leadership for tackling health inequalities from both key stakeholders. The effective governance of all actions relating to health inequalities has been strengthened to ensure a continued approach to key actions.
- 18 Key partnerships are identified through the Health and Wellbeing Strategy. Partnership working to tackle health inequalities between the Council and the PCT has strengthened but partnership arrangements with wider bodies such as research and academic institutions, the voluntary sector and provider trusts are limited. The engagement of the public and communities of interest as partners is not yet embedded and there is limited challenge from Overview and Scrutiny (OSC) on progress in tackling health inequalities.
- 19 The JSNA developed jointly between the Council and the PCT is a comprehensive needs analysis and is the prime evidence base for the Health and Wellbeing Strategy and the NHS Brent Commissioning Strategy Plan. This identifies key issues for Brent and specifically the role of cardiovascular disease as having the most significant impact on life expectancy. Additional capacity is helping to support further data analysis. At a strategic level there is strong commitment from all partners to understand diverse communities. The JSNA is being refreshed to ensure that this understanding remains current and comprehensive.
- 20 Further use of the existing workforce to tackle health inequalities is possible. There are some good examples of local initiatives and evidence of an emerging wider approach. Public health capacity is developing and Non-Executive Directors (NEDs) and Councillors are making good progress in developing the skills and abilities to challenge plans on health inequalities.
- 21 The Council and the PCT are working more closely together on health inequalities and there is good commitment to the effective performance management of this issue. At the time of our initial review the Commissioning Strategy Plan had the most developed performance management. This has been extended to include the Health and Wellbeing Strategy and associated actions. The impact on health inequalities is constrained by a lack of clearly defined outcomes in some areas.



- 22 A corporate responsibility policy in relation to the wider determinants of health has not been developed. However the principles of corporate responsibility, that is how the organisation behaves for example, as an employer, a buyer of goods and services, as a landholder and commissioner of building work, are starting to be reflected in activities. Both the Council and NHS Brent have started to consider formally the financial implications of corporate responsibility. Further work will help ensure the principles of corporate responsibility are more explicitly reflected in future organisational strategies.

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### Diabetes and Tuberculosis

- 23 In Brent, the prevalence of diabetes is expected to rise by 20 per cent over the coming years and in July 2008 Healthcare for London reported poor scores for diabetic care. Subsequently improved outcomes became a specified objective in the Health and Wellbeing Strategy and the PCTs Commissioning Strategy Plan. A diabetic priority action group is in place with diabetic care pathway and guidelines and as part of the vascular risk assessment programme specific interventions for pre-diabetics are being offered.
- 24 Currently much of the Tuberculosis in Brent is imported and the current treatment approach has good completion rates. This is being supported with improved commissioning arrangements and a strengthened control approach. The Tuberculosis steering group and Tuberculosis clinical group have been reinvigorated with a timetable for action which includes a strengthened strategic approach later in 2010.

# Appendix 1 – Presentation

## NHS Brent & LB Brent Tackling Health Inequalities – part 2

### Part 2 – progress to date

Neil Sandys & Gary McLeod  
26th April 2010



### Health Inequalities – scope of presentation

- Outline of the review & key lines of enquiry for part 1
- Identified key issues from part 1
- Key lines of enquiry for part 2 review
- Part 2 emerging findings
- Draft recommendations



### Health Inequalities – key metrics

- 2009 Annual Public Health Report indicates that for 2004-06:
  - life expectancy for Brent women is 83.4 years (London average is 80.9)
  - life expectancy for Brent men is 78.2 years (London average is 77.4)
  - Since 1991 life expectancy for men has increased by 4.6 years & 3.4 years for women
- The 9.3 year gap in life expectancy has persisted over a number of years - a recent reduction in the gap is linked to a reduction in life expectancy in Northwick Park rather than improvement in Harlesden



### Health Inequalities – narrowing the gap

**Initial high - level review considered 6 key themes:**

1. Delivering Strategic and Operational Objectives
2. Delivering in partnership
3. Using Information and Intelligence to Drive Decisions
4. Securing Engagement from the Workforce
5. Performance Management
6. Corporate Responsibility



## Health Inequalities – narrowing the gap

### Key strengths

- Strategic commitment amongst key partners and key individuals are strongly supportive of actions to reduce health inequalities
- Key partnerships have been identified
- JSNA is a sound and shared foundation across the partnership for work on reducing health inequalities
- There is high level commitment to performance managing health inequalities
- Risks from part one review actively addressed



### Progress on part one risks (1)

Key risk	Progress
<ul style="list-style-type: none"> <li>• How can the sponsorship of HI projects be made more explicit?</li> <li>• How can the effectiveness of the HOSC be maintained ?</li> <li>• What initiatives are available to support engagement of provider Trusts in tackling Health Inequalities?</li> <li>• How can partnership arrangements be further developed with               <ul style="list-style-type: none"> <li>– the voluntary sector; and</li> <li>– service users and carers ?</li> </ul> </li> <li>• What further refinement might be required to ensure the needs of all diverse communities are effectively captured?</li> </ul>	<ul style="list-style-type: none"> <li>• H&amp;WB day /one of 6 key areas for stronger joint working and joint action plan to address previously identified risks</li> <li>• Focused on NWL hospitals issues</li> <li>• Captured in commissioning intentions/ standards for better health</li> <li>• Supported through appointment of Head of Partnerships – developing public and patient involvement</li> <li>• Further use of JSNA &amp; work and primary care work</li> </ul>



### Progress on part one risks (2)

Key risk	findings
<ul style="list-style-type: none"> <li>• What possibilities exist to use all of the wider workforces to contribute effectively to reductions in health inequalities?</li> <li>• Is additional public health capacity required to support the overall work programme?</li> <li>• Where could further performance management framework support actions relating to health inequalities ?</li> <li>• What further data is required to monitor performance and demonstrate impact?</li> <li>• How can a clear plan or cross-cutting approach towards corporate responsibility assist in respect of the wider determinants of health?</li> </ul>	<ul style="list-style-type: none"> <li>• Physical activity and green travel for LB Brent staff</li> <li>• Additional staff appointed/ new DPH appointment expected</li> <li>• Captured in Health and Well-Being</li> <li>• Captured in Health and Well-Being</li> <li>• All plans contribute but not explicitly.</li> </ul>



### Summary findings and key lines of enquiry for part 2

Progress in some areas, less in others. Second stage of review focused on:

- ➡ Are governance and arrangements for working together effective ?
- ➡ Are suitable arrangements in place to ensure delivery of the health inequalities agenda ?
- ➡ CAA follow-up - are suitable arrangements in place to address high levels of diabetes and TB in Brent ?



## Planning and monitoring to manage the gap (1)

**Are governance and arrangements for working together effective ?**

- Current position:
  - One of 6 key priorities as part of improved joint working between LA and PCT and prior risks being actively addressed.
  - Considering more explicit approach e.g. possible PMO approach
  - HI indicators to be included in Health & Well Being performance dashboard
  - Developing public and patient involvement.
- Arrangements could be improved by:
  - Clarifying roles and responsibilities
  - Having an agreed focus on Health Inequalities
  - HOSC could develop wider focus on longer-term strategy to narrow the health inequalities gap
  - Scope for stronger engagement with provider Trusts & voluntary sector



## Planning and monitoring to manage the gap (2)

**Are suitable arrangements in place to deliver the health inequalities agenda ?**

- Current position
  - Vascular health programme identified as a key intervention in CSP
  - Plan to develop a LES and & monitoring arrangements
  - Public health skills and capacity has been improved
  - Cardiovascular programme to be implemented from June 2010
- Arrangements could be improved by:
  - Developing a performance management framework to monitor actions which are intended to reduce the health inequalities gap
  - Consider an explicit corporate responsibility approach



### Planning and monitoring the gap (3)

#### Are suitable arrangements in place to address Diabetes ?

- Forecast 20% rise in diabetes over coming years
  - July 2008 Healthcare for London report indicated poor scores
  - Improving outcomes is a specified objective in H&WB strategy and the CSP
  - Have diabetic priority action group & care pathway /guidelines:
  - Have refreshed physical activity strategy and draft obesity strategy and specific focus in CSP
  - Intervention for pre-diabetics
- 
- No specific strategy
  - Scope for further patient education.



### Planning and monitoring the gap (4)

#### Are suitable arrangements in place to address Tuberculosis ?

- Strong treatment approach with good completion rates:
- Current treatment approach to be complimented by strengthened control approach and improved commissioning arrangements.
- Have TB Steering Group and reinvigorated clinical group:
- No current strategy but do have timetable and plan for strategy in October 2010.



## **Brent Health Inequalities – progress to date**

### Key messages:

- Risks identified in part 1 review adopted and monitored through Health and Well-Being steering group
- Despite prior finance pressures vascular risk programme is being implemented.
- Focus on monitoring actions to reduce the health inequalities gap actions through Health and Well-Being Steering group.
- Increased pressures on NHS funding will place ALL activities under scrutiny for effectiveness.



## **Improving the strategic approach**

- How will things be different in
  - 10 years?
  - 5 years?
  - 1 year?
- How will Brent know if the right actions are being undertaken and if progress is being made?
- How does Brent ensure sustained collective and high level responsibility for this?





### Improving the strategic approach

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#### Recommendation 1

- Ensure the Health and Well-Being Steering Group effectively monitors those actions intended to narrow the health inequalities gap.



### Tackling Diabetes and Tuberculosis

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Is there a clear focus on the disease area ?

Can this be supported with effective project and performance management arrangements ?

Which interventions will provide sustained impact ?



## Tackling Diabetes and Tuberculosis

### Recommendation 2

- Support task groups on Diabetes and Tuberculosis to identify interventions which will have measurable impact in the short, medium and longer-term.



## Summary

- Progress to date
  - Clear understanding of the issues.
  - Strong partner commitment.
  - High level approach to driving improvement.
  - Focused approach to addressing identified risks from part 1 review
- Key actions
  - Embed actions to address risk from part 1 review
  - Complete identified outstanding actions.
  - Monitor on-going progress of all HI actions in the light of reduced public sector funding.
- The way forward
  - Finalise summary report with recommendations.
  - Findings to inform the UoR assessment.



# Appendix 2 – Action plan

Appendix 2 – Audit Commission Review of Health Inequalities in Brent

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
1. How can the sponsorship of health inequalities projects be made more explicit rather than implicit?	<p>The role and remit of the Health and Wellbeing Steering Group is being reviewed. This group will take the lead in ensuring actions to address health inequalities are embedded in the delivery plans of partners, including service areas in the council. Terms of reference and membership are also being reviewed so that group has the right people on it and it is addressing the right issues. This is in recognition that its function has changed since the Health and Wellbeing Strategy was developed.</p> <p>The chair of the Health and Wellbeing Steering Group will rotate between NHS Brent and the council and the work programme is to be developed jointly by the two organisations. This is to reflect the work streams that are being taken forward by each organisation.</p>	<p>The Health and Wellbeing Steering Group needs to:</p> <ul style="list-style-type: none"> <li>confirm its terms of reference;</li> <li>confirm group membership;</li> <li>agree a work programme and meeting schedule for the coming year. The work programme will be updated at each meeting;</li> <li>agree reporting lines for the Group and its position within local authority, PCT and LSP structure; and</li> <li>identify other groups working to deliver Health and Wellbeing Strategy work streams through a mapping exercise.</li> </ul>	Simon Bowen and Cathy Tyson	To be completed by May 2010

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
	Reporting lines for the group and other existing groups that are working to address health inequalities (such as the Strategic Obesity Group) will be clarified. At present many of these groups are working in isolation and need to be part of a coherent structure with clear reporting lines so that outcomes can be monitored and evaluated.			
2. How can the effectiveness and impact on health inequalities of the Overview and Scrutiny Committee be maintained?	<p>More effort is being made to work with the Health Select Committee so that health inequalities are a bigger part of their work. In the last three meetings, the committee has considered reports on:</p> <ul style="list-style-type: none"> <li>Local Area Agreement Performance Indicators;</li> <li>Smoking Cessation;</li> <li>Obesity (at two separate meetings);</li> <li>Public satisfaction with access to GP services; and</li> <li>Childhood immunisation.</li> </ul> <p>Efforts are also being put into the development of a performance report to monitor the work being done in the borough to address health inequalities.</p>	Agree Health Select Committee work programme, including health inequalities issues and reporting of performance information.	Cathy Tyson	Work programme to be agreed in June 2010

## Appendix 2 – Action plan

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
	As well as being monitored by the Health and Wellbeing Steering Group, this will be reported to the Health Select Committee on a regular basis so that members are aware of the major challenges in addressing health inequalities.			
3. What actions are available to support engagement of the provider trusts in tackling health inequalities?	<p>The engagement with provider organisations on tackling health inequalities is limited at present. They do have a role to play in this regard, promoting healthy lifestyles to patients, addressing issues such as smoking and referring patients to smoking cessation services. Tackling health inequalities is one of the Care Quality Commissions standards for better health and so the work they do to address health inequalities should be reflected in their submissions.</p> <p>There may be opportunities to influence provider organisations through the commissioning cycle and include a health inequalities element within contracts. This needs to be explored by NHS Brent commissioners to see what scope there is for this.</p>	<p>Contact NWL Hospitals and CNWL to seek a nomination to the Health and Wellbeing Steering Group.</p> <p>Work with NHS Brent commissioners to see what scope there is to include a health inequalities element into contracts with providers, and consider how this can be monitored.</p> <p>Current contracts include quality schedules and CQUIN</p> <p>(Commissioning for Quality and Innovation) payments. These elements need to be clarified – agreed to invite an officer from commissioning to attend the group to identify how this issue can be taken forward through contracts.</p>	Simon Bowen	September 2010

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
	The revised membership of the Health and Wellbeing Steering Group includes a place for a representative from North West London NHS Hospitals Trust and Central and North West London NHS Foundation Trust. Both organisations will be approached seeking a nominee for the group.	Monitoring of Standards for Better Health declarations from NWL Hospitals on tackling health inequalities. The Trust will be invited to attend the group to discuss this issue.		
4. How can partnership arrangements be further developed with the voluntary sector and service users and carers?	<p>Both the council and NHS Brent are moving away from a grants based funding regime to setting up contracts with voluntary sector organisations to deliver its priorities and aims, including tackling health inequalities. This needs to be further developed and there maybe issues within the voluntary sector that need to be addressed so that are able to prepare bids for such contracts. A conference has taken place with the voluntary sector to inform them of health and adult social care commissioning.</p> <p>There will be a voluntary sector representative on the Health and Wellbeing Steering Group which should help relationships with the sector and hopefully flag up any issues that voluntary organisations have in helping to address health inequalities.</p>	<p>Invite a Local Involvement Network representative to be on the Health and Wellbeing Steering Group.</p> <p>Annual stakeholder event to be held to consider ways to consider the major health inequalities in Brent and how they are being addressed by organisations in the borough.</p>	Cathy Tyson/ Kostakis Christodoulou	Ongoing

## Appendix 2 – Action plan

<b>Risk</b>	<b>Action to address risk</b>	<b>Actions needed</b>	<b>Officer responsible</b>	<b>Timescale</b>
5. What further refinement might be required to ensure that the needs of all diverse communities are effectively captured?	<p>The council has a well developed evidence base which provides comprehensive information on Brent's different communities. This is publically available and is used by NHS Brent. Whilst the evidence base is one useful source of information, greater use needs to be made of qualitative information that is robust and reported widely so that individuals can inform and influence services in the borough.</p> <p>The council and PCT are working on the development of a partnership consultation strategy and action plan. Within this there is a commitment to share resources and information so that better informed decisions can be made on services in the borough. The strategy will be completed by May 2010.</p>	<p>Continue to update and refresh evidence base, ensuring information is provided from within the council and PCT to improve its content.</p> <p>Implement Partnership Consultation Strategy from May 2010 and engage with Community Engagement Team at NHS Brent to consider the information they are picking up in engagement work.</p> <p>Refresh JSNA.</p>	Cathy Tyson	Ongoing
6. What possibilities exist to use of all the wider workforces to contribute effectively to reductions in health inequalities?	<p>There are numerous opportunities to use the wider workforce of both the council and PCT to contribute to addressing health inequalities. The Health and Wellbeing Steering Group have held discussions with Housing Services on the possibility of housing officers contributing to this agenda, by providing information on healthy lifestyles to tenants, or signposting them to different services (smoking cessation, for example).</p>	<p>Add workforce issues to the Health and Wellbeing Strategy Group work programme for further consideration.</p>	Simon Bowen and Cathy Tyson	September 2010

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
	<p>Discussions are to continue on this issue to.</p> <p>Other officers who have significant contact with members of the public (such as environmental health officers) could offer similar advice where appropriate. Health visitors also need to be engaged again on this issue, to make sure they are providing the messages needed to people they are in touch with. Ultimately, this is a training issue that the Health and Wellbeing Steering Group will be working to address.</p>	<p>Consider the training requirements for council and PCT staff to enable effective intervention – focus on frontline staff. Ideas include:</p> <ul style="list-style-type: none"> <li>frontline staff to be trained so that they are able to signpost or refer people to help for various health issues – possibilities include fuel poverty, smoking, exercise and diet. The Audit Commission has produced case studies on this type of work to be used as a guide for the group; and</li> <li>agreement to start on small scale to see how this work progresses – complex and difficult issue, but frontline staff are an excellent resource.</li> </ul>		
<p>7. Is additional Public Health capacity required to support the overall work programme?</p>	<p>This recommendation has been made in the context of shrinking PCT budgets and so providing extra resource may not be possible, but it would be helpful. NHS Brent has appointed a Health Improvement Consultant to lead on the health inequalities agenda, but at present there are no plans to commit further resource to the Public Health Team.</p>	<p>NHS Brent intends to make best use of existing staff so they are contributing to tackling health inequalities (see above, training example). But there are no plans to recruit further public health specialists at this current time.</p>	<p>Simon Bowen and Cathy Tyson</p>	<p>On-going</p>



## Appendix 2 – Action plan

<b>Risk</b>	<b>Action to address risk</b>	<b>Actions needed</b>	<b>Officer responsible</b>	<b>Timescale</b>
8. Do performance management systems support the monitoring and evaluation of activities necessary to address health inequalities?	The Health and Wellbeing Group is working to put together a performance framework to monitor activity aimed at reducing health inequalities in the borough. This will be agreed at the Health and Wellbeing Group meeting in April 2010. Regular monitoring of the framework will become a key activity for the group, which will follow up areas of poor performance during its meetings. Health Select Committee will also provide member input into this process.	Develop and agree performance framework to monitor the impact of work designed to address health inequalities. Agree monitoring regime for Health and Wellbeing Steering Group, LSP Board and Health Select Committee.	Simon Bowen and Cathy Tyson	September 2010
9. Where could further performance management framework support actions relating to health inequalities?		See above – work is happening to address this.		
10. What further data is required to monitor performance and demonstrate impact?	Work is taking place to identify the relevant performance indicators, but they will relate to actions in the Health and Wellbeing Strategy. One of the issues identified by the Health and Wellbeing Steering Group is that many indicators don't show significant changes over the short term (eg changes in life expectancy) and so monitoring the impact of interventions requires a balance of long and short term indicators.	See above re performance indicators.		

Risk	Action to address risk	Actions needed	Officer responsible	Timescale
11. How can a clear plan or cross cutting approach towards corporate responsibility assist in respect of the wider determinants of health across all departments and organisations?	<p>Indicators will be drawn from the LAA, Health and Wellbeing Strategy, National Indicator Set and local set priorities.</p> <p>The Health and Wellbeing Steering Group will be responsible for taking this forward – its key objective will be to embed tackling health inequalities in the delivery plans of the council and PCT. It will need to ensure that those delivering services are aware of the impact their actions have on addressing health inequalities and that their services compliment this work. The Health and Wellbeing Steering Group work programme will need to look beyond traditional areas of work to see where the connections with health inequalities can be made in other council and PCT developments.</p>	<p>Agreed to present the second stage Audit Commission report to the joint Executive Management Team meeting to see how they want this issue to be taken forward. The group will review the PCTs health and wellbeing programme at a future meeting to see what lessons can be learned for future initiatives.</p> <p>Agreed that tackling health inequalities needs to be explicit in the new Brent Council Corporate Strategy, to be approved by July 2010.</p>	Simon Bowen Cathy Tyson	Joint Executive Group 5th October 2010

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# The Audit Commission

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	<p style="text-align: center;"><b>Audit Committee</b> 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
For Action	Wards Affected: ALL
<p><b>Report Title: Internal Audit Terms of Reference and Strategy</b></p>	

## 1. Summary

- 1.1. This report sets out the Internal Audit Terms of Reference and Strategy for 2011 to 2013.

## 2. Recommendations

- 2.1. The Audit Committee approve the Terms of Reference and Strategy for Internal Audit.

## 3. Detail

- 3.1. The Accounts and Audit Regulations 2003 (as amended)<sup>1</sup> require the council to make provision for internal audit in accordance with the CIPFA Code of Practice on Internal Audit in the United Kingdom (the Code)<sup>2</sup>. This Code states that the purpose, authority and responsibility of internal audit should be set out within a terms of reference, agreed by the organisation. The relevant body to agree the terms of reference is the Audit Committee.
- 3.2. The Code also requires the Head of Audit to produce an audit strategy outlining the objectives, outcomes and delivery methods. This strategy must be approved by the Audit Committee.
- 3.3. The Terms of Reference and Strategy are attached to this report at appendices 1 and 2.

## 4. Financial Implications

- 4.1. None

## 5. Legal Implications

- 5.1. All principal local authorities subject to the Accounts and Audit Regulations

2003 (as amended)<sup>1</sup>, must make provision for internal audit in accordance with the CIPFA Code of Practice on Internal Audit in Local Government in the United Kingdom<sup>2</sup>. The requirement for an internal audit function set out in S.151 of the local government act which requires that authorities “make arrangements for the proper administration of their financial affairs”.

- 5.2. In England, more specific requirements are detailed in the Accounts and Audit Regulations 2003 (as amended), in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. The guidance accompanying the legislation states that, for principal local authorities, proper internal control practice for internal audit are those contained within the CIPFA Code of Practice<sup>2</sup>.

## **6. Diversity Implications**

- 6.1. None

## **7. Background Papers**

1. The Accounts & Audit Regulations 2003 (as amended)
2. CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

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## AUDIT AND INVESTIGATIONS UNIT

### **Internal Audit Terms of Reference**

## **INTRODUCTION**

The CIPFA Code of Practice for Internal Audit (2006) requires the council to formally define the terms of reference for Internal Audit.

This document describes the purpose, authority, and principle responsibilities of the council's Internal Audit Team.

## **DEFINITION AND FUNCTION OF INTERNAL AUDIT**

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

## **AUTHORITY & STATUS**

Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 which requires that authorities "*make arrangements for the proper administration of their financial affairs*". This includes having an effective internal audit of activities. Further, the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006) require that a relevant body must "*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*". Those proper practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 206.

## **RESPONSIBILITIES AND OBJECTIVES**

The council, through its Corporate Management Team and Service Directors is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The council is responsible for conducting, at least annually, a review of the effectiveness of governance and internal control arrangements. These responsibilities will be discharged through the Audit Committee.

Internal Audit plays a vital role in advising the council that these arrangements are in place and operating adequately. In order to provide that assurance the Head of Audit & Investigations will provide an annual report setting out his opinion on the adequacy of the system of internal control. This opinion will support the Annual Governance Statement.

Internal Audit will conduct such reviews as it deems necessary to inform the Head of Audit and Investigation's opinion. In addition, Internal Audit will conduct reviews which Departmental Management Team's consider would be beneficial to the organisation. Such reviews will be agreed with relevant directors. These reviews will also inform the annual opinion. These reviews will be conducted within an annual plan, agreed each



year with the Audit Committee. The annual plan will be developed with reference to an overarching three year strategy designed to cover all material systems and risks.

The objective of internal audit will be to deliver this plan, provide sufficient information to inform the Head of Audit and Investigation opinion, to provide directors with an assurance assessment for those processes under review and to make recommendations for improvement where necessary.

The scope of Internal Audit's remit will include all systems, operations and processes for which the council is responsible, including subsidiary bodies, schools, partnerships and any shared services for which the council has financial responsibility.

Ultimate responsibility for ensuring that internal controls throughout the council are adequate and effective lies with management and not Internal Audit. Managers are responsible for establishing effective arrangements for internal control, ensuring compliance with all relevant statutes and regulations and that public funds are properly safeguarded and used economically, efficiently and effectively.

The Audit Committee will be responsible for approving the Internal Audit Terms of Reference and Strategy and annual audit plan; receiving reports from the Head of Audit & Investigations on the results of the work of Internal Audit or other matters that the Head of Audit & Investigations regards as necessary.

## **PLANNING**

The annual audit plan will be developed through discussions with senior officers throughout the council and external audit. This plan will take into account the council's main areas of risk and its risk management processes. The plan will be kept under review during the year to take account of and reflect changing priorities and emerging risks.

Each individual assignment will be planned and managed in accordance with CIPFA Code of Practice and internal procedures to ensure that work is undertaken with due professional care.

## **INDEPENDENCE**

To be effective, Internal Audit must remain sufficiently independent of the activities it audits. This is to enable the auditors to perform their duties in a manner which ensures impartial and professional judgements and recommendations. Internal Audit will operate without interference from senior officers and will be allowed to conduct any reviews or enquiries it sees fit in order to fulfil its professional responsibilities. The Head of Audit and Investigations will be free, if the need arises, to report in his own right without fear or favour to any officer of the council or member of the council, the Audit Committee or Full council.

The Head of Audit & Investigations will have unrestricted access to those charged with governance and specifically to elected Members and the Chief Executive. In addition, Internal Audit is accorded unrestricted access to all Chief Officers and employees of the

council. The Head of Audit and Investigations will have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the council.

## **REPORTING LINES & RELATIONSHIPS**

The Head of Audit and Investigations will report to the council's Director of Finance and Corporate Services. However, to maintain independence, the Head of Audit & Investigations may report directly to the Chief Executive and Members when appropriate to do so and in order to fulfil their responsibilities.

The Head of Audit & Investigations or those audit staff managing or conducting assignments will report regularly to all senior managers on the result of individual audits affecting their area of responsibility. Internal Audit will strive to work with management in the resolution of matters arising from individual audits, fraud and irregularity investigations and in any additional requests for support and advice in which Internal Audit is involved. A primary aim is to add value to the organisation through consensus, where possible.

Relationships with the external auditor and other review bodies will be governed by mutually acceptable arrangements as set out in protocols or similar agreements to maximise the potential for mutual reliance on and use of each party's works.

The Head of Audit and Investigations will meet regularly with the Chair of the Audit Committee to appraise them of any significant matters arising.

## **INTERNAL AUDIT RESOURCES**

Internal Audit provision is currently provided via a small in-house team working in partnership with Deloitte and Touche Public Sector Internal Audit Ltd under a contractual arrangement. The current arrangements and resources will continue to be kept under review to ensure that the team can deliver the agreed Audit Plan and assurances required for the Annual Governance Statement.

The council has a duty to provide sufficient resources to allow an adequate and effective internal audit service to be provided. Where it is felt that resources are inadequate to meet this objective, the Head of Audit & Investigations will bring this to the attention of the Director of Finance and Corporate Services and Audit Committee.

## **RIGHT OF ACCESS**

The Head of Audit & Investigations and staff within the Team will have the authority to:

- Enter any municipal building, land or area where records relating to any activity of the council, its partners, contractors or any organisation partly funded by the council are held. This includes all schools receiving funding from the council.

- Have access to all records, data computer systems, correspondence and any source of information relating to any matter under examination and remove any records as deemed to be necessary.
- Require and receive explanations considered necessary concerning the matter under examination from any employee including Chief Officers.
- Require any person holding or controlling cash, stores or any other council property to produce such items to be examined. These may be removed as deemed necessary.

## **FRAUD & CORRUPTION**

Managing the risk of fraud and corruption is the responsibility of management. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

Audit procedures, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have the responsibility for the prevention and detection of fraud and corruption; however audit staff will be alert when conducting assignment to risks and weaknesses in controls which could allow fraud and corruption to occur.

The council's Financial Regulations lays out the responsibilities of Chief Officers, Managers and other employees in relation to any suspicion of fraud or irregularity. The role of the Audit & Investigations Team is to fully investigate any suspicion of fraud, irregularity or corrupt practice, report to management and those charged with governance and to liaise, where appropriate with the Police and other government agencies.

## **CONSULTANCY WORK**

Internal Audit may be asked by directors to undertake consultancy work. Acceptance of the assignment will be dependent on available resources, the nature of the work and any potential impact on assurance.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain responsibility for the ultimate decisions taken within the area under review.

## **REPORTING & ANNUAL AUDIT OPINION**

The primary purpose of Internal Audit reporting is to communicate to management within the council information that provides an independent opinion on the control environment and risk exposure and to prompt management to implement agreed actions.

A report will be produced following each audit (and fraud investigation) giving an assurance opinion on the system of control under examination, making recommendations to improve control and, where appropriate, to improve performance and efficiency.

Management will be required to respond to all recommendations and internal audit will undertake follow-up work to ensure the implementation of accepted recommendations.

The Head of Audit & Investigations will provide an annual report to those charged with governance, the Audit Committee, timed to support the Annual Governance Statement. This annual report will:

- Include an opinion on the overall adequacy and effectiveness of the council's control environment.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Audit & Investigations judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken by Internal Audit against the planned work.

In addition the Head of Audit will provide summary reports on a quarterly basis to the Audit Committee reporting on the progress of the audit plan and any emerging issues.

## **REVIEW**

These Terms of Reference will be reviewed periodically and any amendments will be submitted to the Audit Committee for approval.



## AUDIT AND INVESTIGATIONS UNIT

### **Internal Audit Strategy 2010 to 2012**

## **INTRODUCTION**

The CIPFA Code of Conduct of Internal Audit (2006) requires the council's Head of Audit & Investigations to "produce an audit strategy". This is a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the terms of reference and how it links into the council's organisational objectives and priorities. The purpose of this strategy is to communicate the contribution made by Internal Audit to the council and includes:

- Internal Audit objectives and outcomes.
- How the Head of Audit & Investigations will form and evidence his or her opinion on the control environment to support the Annual Governance Statement.
- How Internal Audit's work will identify and address significant local and national issues and risks.
- How the service will be provided, i.e. internally, externally or a mix of the two.
- The resources and skills required to deliver the strategy.

## **STRATEGY STATEMENT**

The overall strategy is to deliver a risk based audit plan in a professional, independent manner, to provide the council with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations for improvement when and where it is required.

## **INTERNAL AUDIT OBJECTIVES & OUTCOMES**

The Internal Audit Team forms part of the Audit & Investigations Unit which is based within the Council's Finance & Corporate Resources Service Area. It provides a full internal audit service for the Council.

Internal Audit objectives are defined in more detail in the Internal Audit Terms of Reference. However, the primary objective is to provide assurance on the adequacy and effectiveness of the council's internal control environment to officers and members by giving an independent and objective annual opinion.

In fulfilling these objectives Internal Audit will provide the following services:

- Regular review of key systems to give assurance on the adequacy and effectiveness of the operation of key controls;
- Regularity audits to provide assurance over compliance with rules and regulations;
- Audit of major contracts ;
- Provision of advice and support to management of the Council on a wide range of issues relating to governance and risk;
- Reviews at the request of managers or as identified as a result of other work, which may fall outside the Audit Plan;

- Investigations into suspected fraud and irregularity identified as part of regular internal audit work or when allegations are received;
- An annual report to the Audit Committee, which will provide an assessment of the council's control environment.

## **Delivery of Internal Audit; Resources & Skills Requirements**

The Head of Audit & Investigations is responsible for delivery of the council's Internal Audit function in accordance with its Terms of Reference. To ensure that this can be achieved, there will be appropriate arrangements in place for:

- Determining and planning of the work to be undertaken (i.e. an audit plan based on an assessment of risks);
- The provision of resources required to deliver the audit plan, the necessary skills and support facilities.

The strategy for Internal Audit is to deliver a risk-based Annual Audit Plan. The Plan will set out the number of available audit days and resources split across the council's services and broken down into days. The strategy and plan will be sufficiently flexible to taken account to changes in the council's risks and service needs. A number of contingency days will be built into the plan to enable Internal Audit to respond to emerging risks, and provide ad hoc advice and guidance.

Under the control and direction of the Head of Audit & Investigations, the Internal Audit function will be provided by:

- The in-house Team
- The Contractor (this currently Deloitte Touche Public Sector)

The number of days allocated to the in-house team and contractor will be specified in the annual audit plan.

In order to ensure an adequate and effective internal audit service is maintained, Internal Audit must have adequate budgetary resources to maintain organisational independence and be appropriately staffed in terms of numbers and skills. The Head of Audit & Investigations is responsible for ensuring that resources and skills within Internal Audit are adequate. The Internal Audit function will have staff who are appropriately qualified and have suitable audit experience.

All staff involved in the delivery of Internal Audit will be required to comply with the ethical standards contained in the Code of Practice for Internal Audit in Local Government in the UK 2006. Additionally, Internal Audit staff are bound by the ethical codes of professional bodies with whom they have qualified and members of the in-house team are all are bound by the Council's own Code of Conduct for employees

## **Audit Planning & Risk Assessment**

The CIPFA Code of Practice stipulates that *“the Head of Audit should prepare a risk-based audit plan which should be fixed for a period of no longer than one year. The plan should differentiate between assurance and other work and take account of the adequacy and outcomes of the organisation’s risk management, performance management and other assurance processes”*.

A number of factors will be taken into account when formulating the Annual Internal Audit Plan. These will include the following:

- Inclusion of any key financial systems judged to require audit on an annual basis in order to inform the work of External Audit;
- Consideration of key risk areas across the council, as determined through Internal Audit’s own assessment of risk, as well as liaison with Directors and Assistant Directors across the Service Areas;
- Consideration of key projects and developments taking place across the council. This will include, but will not be limited to: capital projects and other planned improvement & efficiency programmes (this will include systems changes i.e. IT based and manual);
- Local and national issues affecting services as well as statutory and regulatory changes;
- Consideration of areas of known weakness, as determined through previous internal audit work or through past instances of fraud dealt with by the Investigations Team.

The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a risk assessment process.

Whilst internal audit will adopt a risk based approach to determine relative risks, there will be areas where a cyclical approach will still be required i.e. the audit of key financial systems. Such audits will be undertaken annually, largely to satisfy the requirements of the external auditors who seek to place reliance on the work of internal audit.

Other review work, based on criteria other than risk, may also be built into the plan. These may include grant certification work, Financial Management Standards in Schools (FMSiS) external assessment or other audits.

A contingency allocation will also be built into the annual audit plan for consultancy work or other unplanned reviews. Any changes to previously planned reviews by unplanned work will be justified.

Internal Audit will comply with the *CIPFA Code of Practice for Internal Audit in Local Government in the UK* and all staff, including contractor staff, are expected to comply with this any other appropriate professional standards. Relevant training will be provided to ensure that auditors have the levels of skills necessary to undertake their roles.



Internal Audit will liaise and cooperate with the council's external auditors and ensure that appropriate reliance can be placed on the activities of Internal Audit.

## **REPORTING**

Reporting on audit findings from internal audit work and the recommendations arising will normally be in writing.

Depending on the nature of the report, an assurance opinion will be provided (i.e. Full; Substantial; Limited or No Assurance). Recommendations will be ranked in order of priority (Priority 1; 2 or 3) depending on the relative importance of the audit finding and the associated risks.

In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management such that management commit to the implementation of recommendations to ensure improvements to the Council's control environment.

The annual report to the Audit Committee will present an opinion on the adequacy and effectiveness of the organisation's internal control environment. It will also:


- Disclose any qualifications to that opinion together with reasons for the qualifications;
- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies. This will include the outcome of fraud or corruption related exercises;
- Draw attention to any issues judged relevant to the preparation of the Annual Governance Statement;
- Compare work actually undertaken with the work planned and summarise performance of the internal audit function against its performance measures.
- Comment on compliance with those standards contained within the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

## **QUALITY ASSURANCE**

Internal Audit will deliver a quality service that demonstrably adds value to the Council's risk management, control and governance arrangements. Quality will be assured by adherence to professional auditing standards and close supervision by senior audit staff.

The Council's External Auditors carry out a triennial review of the effectiveness of Internal Audit and seek, annually, to place reliance upon the work undertaken, particularly in respect of key financial systems.

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	<p style="text-align: center;"><b>Audit Committee</b> 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
<p>For Information</p>	<p style="text-align: right;">Wards Affected: ALL</p>
<p><b>Report Title: 1<sup>st</sup> Internal Audit Progress Report 2010/11</b></p>	

## 1. Summary

- 1.1. This report sets out a summary of the work of Internal Audit for the period from 1<sup>st</sup> April 2010 to 31<sup>st</sup> August 2010. The attached report at Appendix 1 provides detail, together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since April 2010.

## 2. Recommendations

- 2.1. The Audit Committee note the progress made in achieving the 2010/11 Internal Audit Plan.

## 3. Detail

- 3.1. The Internal Audit Plan for 2010/11<sup>1</sup> comprises 1201 days, of which 941 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 260 to the in-house team.
- 3.2. At the end of August 2010, a total of 331 days had been delivered against the overall Plan, made up of 229 Deloitte days and 102 in-house days. This represents 28% of the Plan.
- 3.3. In terms of the profile for 2010/11, in so far as it had been possible to allocate audits to a specific quarter prior to the start of the year, the majority of these have been progressed as planned. As such, it is noted that, in pure percentage terms, delivery is behind when compared to an even twelve month split. However, specific target percentages were not agreed for each quarter given that it had not been possible to profile all audits.
- 3.4. As has been the case in previous years, an even profile is not considered to be realistic. One reason is that there is a requirement for financial systems to

be audited towards the end of the year, in order for sample testing to cover a significant proportion of the accounting period and hence to satisfy the Audit Commission's assurance needs. In addition, for 2010/11, given that the Plan has been aligned to many of the developments taking place as part of the One Council programme, a further factor in the timing of audit work is the status of implementation of each of these developments. Internal Audit are currently reviewing the Plan in order to determine whether changes are now required in certain areas. Some audits will not proceed and alternative areas are being identified in which to undertake work, so as to ensure that the total planned days are delivered by year-end. Appendix B of Appendix 1 details progress by audit, together with the changes made to the Plan to date.

- 3.5. A number of systems audits have been completed and are in progress across the Council. In addition, as part of the focus on key developments, work has been undertaken in relation to the Corporate Property Review, one of the One Council Gold Projects, and Self Directed Support, which forms a key part of the Adult Social Care Transformation Programme. The work in respect of the Corporate Property Review has taken the form of a detailed adequacy assessment regarding the proposed Corporate Property Services Model. This type of work has previously been undertaken in relation to a number of development areas across the Council, most recently in connection with the Finance Modernisation Project. That work was completed as part of the 2009/10 Plan, but had not been reported on to the Committee at the time of the last meeting.
- 3.6. Computer audit work is also progressing, and has included an initial piece of work to assess the adequacy of controls that were being planned surrounding the migration to the Single Accounting System. A second piece of work will be undertaken in the coming months to assess the extent to which the controls were operated effectively.
- 3.7. The final key area of work has been in relation to schools. Each of the secondary schools were due for their three year renewal assessments against the Financial Management Standard in Schools (FMSiS). These have been completed, together with additional audit work as part of the programme of auditing each of the Foundation Schools. With the exception of one school, the draft reports and FMSiS assessment outcomes are currently being reviewed with the results to be issued shortly.

#### **4. Financial Implications**

- 4.1. None

#### **5. Legal Implications**

- 5.1. None

#### **6. Diversity Implications**

- 6.1. None

**7. Background Papers**

1. REPORT FROM THE DIRECTOR OF FINANCE – INTERNAL AUDIT PLAN FOR 2010-11, Audit Committee –3<sup>rd</sup> March 2010.

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**Duncan McLeod**  
**Director of Finance and Corporate Resources**

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**Internal Audit  
Progress Report 2010/11  
London Borough of Brent  
September 2010**

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## Executive Summary






<b>Introduction</b>	<p>This report sets out a summary of the work completed against the 2010/11 Internal Audit Plan for the financial year to date, together with an update on any 2009/10 reports outstanding at the time of the last meeting.</p> <p>In the report we provide a summary of the main findings from each audit together with the assurance ratings for each one. Please note that this summary and assurance rating is only reported on once the individual audit reports have been finalised. We have also indicated where draft reports have been issued and are in the process of being agreed with management, or where audit fieldwork is currently in progress.</p> <p>We have also set out, at Appendix B, the full year's Plan, as agreed by the Committee in March 2010, together with an indication of progress at the individual audit level. This provides the details of actual progress against the originally agreed profile, as well as allowing the Committee to monitor changes to the Plan during the course of the year and to provide comment, as appropriate, on the potential addition of any specific audits.</p>
<b>Summary of progress against the Plan</b>	<p>The overall Internal Audit Plan for 2010/11 comprises 1,201 days, of which 941 are allocated to Deloitte &amp; Touche Public Sector Internal Audit Limited (Deloitte PSIA), and 260 to the in-house team. Of the total, 59 days were carried forward from 2009/10. The reasons behind this were set out within the Plan itself, as presented to the March 2010 meeting.</p> <p>As at the end of August 2010, a total of 332 days had been delivered against the overall Plan, made up of 229 Deloitte PSIA days and 103 in-house days. This represents 28% of the Plan.</p> <p>In terms of the profile for 2010/11, in so far as it had been possible to allocate audits to a specific quarter prior to the start of the year, the majority of these have been progressed as planned. As such, it is noted that, in pure percentage terms, delivery is behind when compared to an even twelve month split. However, specific target percentages were not agreed for each quarter given that it had not been possible to profile all audits.</p> <p>As has been the case in previous years, an even profile is not considered to be realistic. One reason is that there is a requirement for financial systems to be audited towards the end of the year, in order for our sample testing to cover a significant proportion of the accounting period, and hence to satisfy the Audit Commission's assurance needs. In addition, for 2010/11, given that the Plan has been aligned to many of the developments taking place as part of the One Council programme, a further key factor in the</p>

	<p>timing of our work is the status of implementation of each of these developments. We are currently reviewing the Plan in order to determine whether changes are now required in certain areas, on the basis that internal audit work is not now considered relevant in respect of certain projects at the current time. Where this is the case, we will identify alternative areas in which to undertake work, so as to ensure that the total planned days are delivered by year-end. Appendix B can be referred to for the detailed progress by audit, together with the changes made to the Plan to date.</p>
<b>Summary of Work Undertaken</b>	<p>A number of systems audits have been completed and are in progress across the Council. In addition, as part of our focus on key developments, we have undertaken work in relation to the Corporate Property Review, one of the One Council Gold Projects, and Self Directed Support, which forms a key part of the Adult Social Care Transformation Programme. The work in respect of the Corporate Property Review has taken the form of a detailed adequacy assessment regarding the proposed Corporate Property Services Model. This type of work has previously been undertaken in relation to a number of development areas across the Council, most recently in connection with the Finance Modernisation Project. That work was completed as part of the 2009/10 Plan, but had not been reported on to the Committee at the time of the last meeting.</p> <p>Computer audit work is also progressing, and has included an initial piece of work to assess the adequacy of controls that were being planned surrounding the migration to the Single Accounting System. A second piece of work will be undertaken in the coming months to assess the extent to which the controls were operated effectively.</p> <p>The final key area of work has been in relation to the schools. Each of the secondary schools were due for their three year renewal assessments against the Financial Management Standard in Schools (FMSiS). These have been completed, together with additional audit work as part of the programme of auditing each of the Foundation Schools. With the exception of one school, the Draft Reports and FMSiS assessment outcomes are currently being reviewed with the results to be issued shortly.</p>

### Summary of Assurance Opinions and Direction of Travel




For the work finalised against the 2010/11 Internal Audit Plan to date, a summary of the Assurance Opinions awarded is set out in the table below, together with a comparison to the 2009/10 and 2008/09 financial years. Please note that an Assurance Opinion is not applicable in all cases and we have not included BHP audits within this analysis. Please see page 7 for the definitions of each of these opinions.

**N.B.** The figures for 2009/10 have been updated since the previous meeting to take account of the additional reports that have since been finalised. The proportion of 'Substantial' opinions has now improved from the position reported previously.

	Full  	Substantial 	Limited 	None 
<b>2008/09</b>	-	78% (21)	22% (6)	-
<b>2009/10</b>	-	63% (25)	37% (15)	-
<b>2010/11</b>	-	100% (4)	-	-

In addition, in any cases where an internal audit has been completed against the same scope in a prior year, an assessment of the Direction of Travel is also provided. As shown in the table below, there have been three Council audits finalised for the year to date for which such an assessment has been applicable. Please see page 8 for the definitions of the Direction of Travel.

**N.B.** As above, the figures for 2009/10 have been updated since the previous meeting.

	Improved 	Unchanged 	Deteriorated 
<b>2008/09</b>	8	1	-
<b>2009/10</b>	6	9	-
<b>2010/11</b>	1	-	-

Overall, for the work finalised for 2010/11 to date, there has been a positive movement in the spread of assurance opinions. Where applicable, the Direction of Travel assessment has also been positive.

### FMSiS Assessments

As above, we have continued to undertake FMSiS assessments since the time of the last meeting. These have primarily been with the secondary schools, each of which were due their three year renewal assessments.

The table below summarises the progress made and the outcomes of the assessments completed. Further details are set out on page 23.

	Pass	Conditional Pass	Fail	In progress	Still to be assessed
<b>2008/09</b>	31	1	-	-	-
<b>2009/10</b>	24	3	1	-	1
<b>2010/11</b>	1	-	-	7	-

Members are reminded that a school achieving a 'Conditional Pass' is given 20 working days, as per DCSF guidance, in order to address the gaps identified in the initial assessment. Evidence of this is required to be provided to Internal Audit prior to this being upgraded to a full 'Pass'. For those showing as 'Conditional Pass', we are currently in the process of confirming whether the schools have satisfactorily addressed the further actions required.

As set out in the 'Summary of Work Undertaken', the assessment outcomes for those schools yet to be finalised.

### Follow-Up of Previously Raised Recommendations

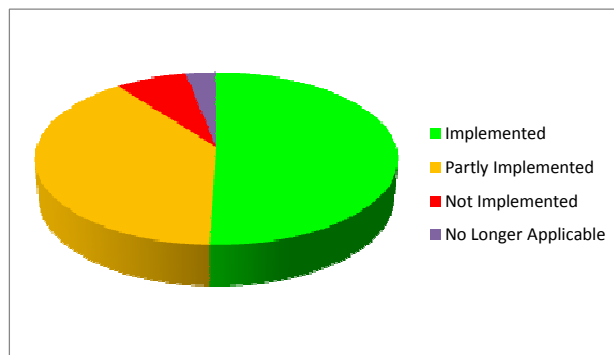
We further developed our approach to follow-up during 2009/10. Under the revised approach, management are responsible for completing a self assessment of the status of implementation of each of the recommendations originally raised, following the passing of the agreed deadlines for implementation. If management indicate that the recommendations have been implemented then we are arranging to meet with them to verify this, following which a report will be issued with our findings. If it is found that the recommendations have not been fully implemented, either through verification, or as indicated by management in their self assessment, then, as was previously the case, further actions will be identified as necessary and revised deadlines for completion will be agreed with management.

In all cases, where recommendations have not been fully implemented, the further actions will continue to be followed-up until the point at which full implementation is confirmed. This was also previously the case. However, the follow-up programme is now a rolling one as opposed to being restricted to an

individual financial year. On this basis, the recommendations raised as part of a specific audit may be followed-up more than once in a single financial year, as well as potentially being followed-up in the same financial year to that in which the audit was undertaken, if it is relevant to do so given the agreed implementation deadlines. This has improved the efficiency of the follow-up process, and will hopefully also improve the extent to which management recognise the importance of undertaking their own monitoring of the implementation of recommendations.

The rolling programme is now fully in place and recommendations are being followed up with management, as and when the deadlines for implementation pass.

A breakdown of the follow-up work undertaken since the last meeting is provided on page 25 of this report. On the basis of this, the current level of implementation is as per the chart below. Overall, this is considered positive given that, of the recommendations followed-up, 93% had either been fully or partly implemented, or are no longer applicable due to changes in the scope of operations. Of the priority 1 recommendations, 100% had either been fully or partly implemented.



**West London Framework**

Since the time of the last meeting, Deloitte's have issued two cross borough papers in respect of the following:

- Contract management (revenue contracts); and
- Performance management of the ALMOs.

As part of our 2009/10 Internal Audit Plans agreed with the London Boroughs of Ealing, Brent and Hammersmith and Fulham, Deloitte undertook a number of contract management audits. The intention of the contract management paper was to highlight overarching themes that management may wish to consider with regards to the management of other existing contracts, as well as any new contracts which may be entered into.

The work in respect of the ALMOs was undertaken using a combination of questionnaires, internet/intranet based research, liaison with Council staff and reviews of previous internal audit work. The intention of the paper was to highlight overarching themes that each Council may wish to consider with regards to their ALMOs.

Days have been included within the 2010/11 Plan for undertaking further cross borough work and the Committee will be updated in future meetings on any activity in this area.

**Customer Satisfaction**

As highlighted to Members at each Committee meeting, in addition to progress against the Plan, a key way in which the performance of Internal Audit is monitored is through the issuing of Customer Satisfaction Surveys to auditees following the completion of each piece of work.

Two completed questionnaires have been received to date in relation to the work undertaken by Internal Audit in 2010/11. On the basis of these, feedback has been 'Excellent' as shown below.

The detailed breakdown of this feedback is set out on page 27 this report.

Year	Average Overall Rating
2008/09	4.4
2009/10	4.1
2010/11 (to date)	5.0

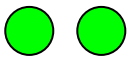



## Detailed summary of work undertaken

We set out in this section, a summary of the internal audits and FMSIS assessments commenced since 1 April 2010, together with any 2009/10 reports that were reported as still to be finalised at the time of the last meeting. A summary of the main findings and the Assurance Opinion are only provided for internal audits for which the final report has been issued. Please note that we list out any priority 1 recommendations raised, but only make reference to the number of priority 2 and 3 recommendations raised. Should Members wish to see full reports for any of the audits then these can be provided upon request.

For Members' reference, the following tables provide the definitions of our assurance opinions, together with the definitions for our recommendation priorities. Please note that these only apply to internal audit work, not to FMSIS assessments. The outcomes of the FMSIS assessments are explained separately later in this section of the report.

### Assurance Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	<b>Full</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	<b>Substantial</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	<b>None</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

### Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

### Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

<b>Priority 1</b>	Major issues for the attention of senior management and the audit committee.
<b>Priority 2</b>	Important issues to be addressed by management in their areas of responsibility.
<b>Priority 3</b>	Minor issues resolved on site with local management.


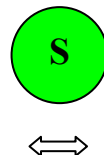






## Summary Table


Where audits are part of the Internal Audit Plan with Brent Housing Partnership (BHP), we have indicated the Assurance Opinion for any finalised reports, but the summary of findings is not provided as this will / has been reported on separately to the BHP Audit & Finance Sub-Committee.


At the time of the previous meeting, a number of 2009/10 reports had yet to be finalised. Where this has now occurred we have included these within the table below. However, as set out on page 15, there are still a number of 2009/10 reports at Draft stage, where management responses have not been provided.

### New audits being reported as final – 2009/10 Audits

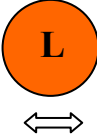
Audit	Status as at 15 September 2010	Assurance Opinion	
Internal Financial Controls (BHP)	Final Report. Reported separately to the BHP Audit & Finance Sub-Committee.	Substantial	
Housing and Council Tax Benefits	<p>Final Report</p> <p>One priority 1 recommendation was raised as a result of this audit as follows.</p> <ul style="list-style-type: none"> <li>Officers should be reminded of the need to complete backdated payment pro-formas when assessing claims for backdated payments. Once the payment has been processed, the claimant should be notified and the notification letter should be scanned onto View 360. In addition backdated payment pro-formas should be approved by an authorised manager in accordance with procedures</li> </ul> <p>In addition eight priority 2 recommendations were raised where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p> <p>The assurance opinion was unchanged from the time of the 2008/09 audit, and we indicated no change in the Direction of Travel assessment. As such, some progress had been made against the previously raised</p>	Substantial	

Audit	Status as at 15 September 2010	Assurance Opinion	
	recommendations. Of the two priority 1 recommendations previously raised, both were found to have been only partially implemented and a number of priority 2 recommendation had yet to be implemented.		
Internal Financial Controls (Housing)	<p>Final Report.</p> <p>One priority 1 recommendation was raised as a result of this audit a follows:</p> <ul style="list-style-type: none"> <li>Consideration should be given to setting up a suspense account for the posting of unidentified receipts prior to their being investigated and cleared.</li> </ul> <p>In addition, we also raised eleven priority 2 and one priority 3 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p> <p>The assurance opinion was unchanged from the time of the 2008/09 audit, and we indicated no change in the Direction of Travel assessment. As such, some progress had been made against the previously raised recommendations. Of the 2 priority 1 recommendations previously raised, one was found to be fully implemented and the other had only been partially implemented.</p>	Substantial	 
Internal Financial Controls (Adult Social Care)	<p>Final Report.</p> <p>Three Priority 1 recommendations were raised as a result of this audit as follows:</p> <ul style="list-style-type: none"> <li>Up until the point at which the approval of journals can be enforced by the Oracle system via the workflow, management should generate a month-end report from the system of all journals processed. This report should then be subject to senior officer review to confirm the appropriateness and accuracy of the journals processed, evidence of which should be maintained. With regards to the extent of the review management should consider whether it is necessary for all items to be included, or whether this can be done on a sample basis. Any decision regarding sample sizes</li> </ul>	Substantial	 


Audit	Status as at 15 September 2010	Assurance Opinion	
	<p>should be made on the basis of an assessment of the level of risk exposure that management consider to be acceptable.</p> <ul style="list-style-type: none"> <li>Control account reconciliations should be completed in accordance with the deadlines set out in the Budget Monitoring Timetable. Any variances identified as part of the reconciliations should be followed-up and cleared in a timely manner.</li> <li>Variances/unreconciled items identified as part of the monthly bank reconciliation process should be promptly investigated and cleared.</li> </ul> <p>We also raised eight Priority 2 and one priority 3 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p> <p>The assurance opinion was unchanged from the time of the 2008/09 audit, and we indicated no change in the Direction of Travel assessment. As such, some progress had been made against the previously raised recommendations. Although the only one priority 1 recommendation previously raised was found to have been fully implemented a number of priority 2 recommendations had only been partly implemented.</p>		
Internal Financial Controls (Environment)	<p>Final Report.</p> <p>No priority 1 recommendations were raised as a result of this audit.</p> <p>However, we did raise 16 priority 2 and one priority 3 recommendations where changes can be made in order to achieve greater control.</p> <p><b>The majority of our recommendations were accepted for implementation by management.</b></p> <p>The assurance opinion was unchanged from the time of the 2008/09 audit, and we indicated no change in the Direction of Travel assessment. As such, some progress had been made against the previously raised recommendations. Of the 2 priority 1 recommendations previously raised, one was found to be fully implemented and the other had only been partially implemented.</p>	Substantial	

Audit	Status as at 15 September 2010	Assurance Opinion	
Government Gateway Post Implementation (IT)	<p>Final Report.</p> <p>No priority 1 recommendations were raised as a result of this audit.</p> <p>However, we did raise three priority 2 and one priority 3 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p>		
Preston Manor School	<p>Final Report.</p> <p>As part of the programme to audit all Foundation Schools, Preston Manor was one of two secondary schools added to the 2009/10 Plan in the final quarter. We undertook an audit alongside their three year FMSiS renewal assessment.</p> <p>One priority 1 recommendation was raised as a result of this audit. This was as follows:</p> <ul style="list-style-type: none"> <li>• Quotes should be obtained in line with the requirements of the Financial Regulations and evidence of the procurement process and the reasons for awarding contracts/allocating monies should be documented and retained, including Finance Committee / Governing Body approval as appropriate.</li> </ul> <p>In any instance where it is not possible to obtain the required number of quotes, a waiver to the Regulations should be sought and evidence of this should be retained if approved.</p> <p>In addition, a further nine priority 2 recommendations and one priority 3 recommendation were raised across the audit and FMSiS reports.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p> <p>The full 'Pass' was awarded for the FMSiS assessment, following the initial award of a 'Conditional Pass'. This was on the basis of the implementation of the priority 2 recommendations raised specifically as part of the assessment within the required 20 working day period, as well as on the basis of the agreed action plan in respect of the wider set of recommendations raised</p>	Substantial	



Audit	Status as at 15 September 2010	Assurance Opinion	
	through the additional audit work.		
Civic Centre (Contract Audit)	<p>Final Report.</p> <p>As part of the 2009/10 Plan, we undertook internal audit work in relation to the Council's new Civic Centre, as planned for construction starting in 2010, with completion end of 2012.</p> <p>This was the first interim audit of what will be a 'watching brief' process, following the progress of the project from its inception through the commissioning, construction and handover stages. The main audit contact is the Civic Centre Programme Director.</p> <p>In this initial piece of work we did not provide an assurance opinion on the controls in place to manage the project. Instead, the objective was to gain a detailed understanding of the project, and the controls being implemented and operated across the following areas:</p> <ul style="list-style-type: none"> <li>• Governance Arrangements;</li> <li>• Appointment of the Consultants;</li> <li>• Procurement Strategy;</li> <li>• Appointment of the Construction Contractor; and</li> <li>• Risk Management.</li> </ul> <p>Our report to management summarised our findings against each of these areas. We did not raise any formal recommendations. However, within the report, we highlighted elements for management's consideration/attention including elements which we consider to be key controls being implemented.</p> <p>We will continue to liaise with the Civic Centre Programme Director to identify the most appropriate timing and scope for future internal audit involvement. The intention would be for future work to include an assurance opinion on the adequacy and effectiveness of the controls being operated.</p>	N/A	N/A

Audit	Status as at 15 September 2010	Assurance Opinion	
Finance Modernisation Project	<p>Final Report.</p> <p>As part of 2009/10 Plan, we undertook internal audit work in respect of the control processes being planned as part of the Finance Modernisation Project. The focus of the work was on the adequacy of the controls set out, against key risks in the various areas of the project.</p> <p>Three separate pieces of work were undertaken, as per the three workstreams of the project:</p> <ul style="list-style-type: none"> <li>• Income;</li> <li>• Payments; and</li> <li>• Reporting.</li> </ul> <p>Where potential gaps in the planned controls were identified, recommendations were raised regarding further controls to consider.</p> <p>Further work in respect of the revised financial management structures is planned for 2010/11 and will involve a formal assessment of the adequacy of the controls actually implemented and the effectiveness of their operation.</p>	N/A	N/A
Internal Financial Controls – Childrens and Families	<p>Final Report.</p> <p>Five priority 1 recommendations were raised as a result of this audit. These were as follows:</p> <ul style="list-style-type: none"> <li>• C&amp;F Finance should liaise with the Sundry Debt Recovery Team to determine/clarify the following: <ul style="list-style-type: none"> <li>◦ Age of debt passed to SDRT;</li> <li>◦ Responsibility for maintaining records of write-offs;</li> <li>◦ Responsibility for resolving invoice disputes; and</li> <li>◦ Responsibility for actioning Write-offs.</li> </ul> </li> </ul> <p>If it is decided that SDRT take on debt after 60 days as per the Draft SLA provided, C&amp;F Finance should determine what action they will initially take and how this should be recorded. It is further recommended that consideration is given to providing further training regarding the</p>	Limited	



Audit	Status as at 15 September 2010	Assurance Opinion	
	<p>processing of write-offs on the system;</p> <ul style="list-style-type: none"> <li>Up until the point at which the automated workflow for journals is switched on, management should generate a month-end report from the system of all journals processed. This report should then be subject to senior officer review to confirm the appropriateness and accuracy of the journals processed, evidence of which should be maintained.</li> </ul> <p>With regards to the extent of the review, management should consider whether it is necessary for all items to be included, or whether this can be done on a sample basis. Any decision regarding sample sizes should be made on the basis of an assessment of the level of risk exposure that management are willing to accept;</p> <ul style="list-style-type: none"> <li>Management should ensure that any unreconciled items from bank reconciliations are investigated and explanations are recorded against these. Where it is determined that unreconciled items do not relate to unpresented cheques, action should be taken to resolve these errors / anomalies;</li> <li>Insurance and delivery arrangements for cash held by SC should be reviewed. Management may wish to reduce the float balances in light of the launch of pre paid cards for Social Care clients. In addition, Brent Transport Services should consider storing all cash and cheques held, in the locked safe; and</li> </ul> <p>Any discrepancies identified in petty cash reconciliations should be annotated with explanation and actions taken. In addition, the reconciliation should be reviewed by an independent officer and any unresolved discrepancies should be reported to the Senior Business Services Officer. Independent checks should also be undertaken between claims recorded on the spreadsheet and approved claim forms on a periodic basis. These checks should be formally documented.</p> <p>We also raised six priority 2 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by</b></p>		


Audit	Status as at 15 September 2010	Assurance Opinion	
	<b>management.</b> The assurance opinion was unchanged from the time of the 2008/09 audit, and we indicated no change in the Direction of Travel assessment. As such, some progress had been made against the previously raised recommendations. However, of the five priority 1 recommendations previously raised, only one was found to have been fully implemented. The remaining four had only been partly implemented.		
Accuserv Application (IT)	Final Report. Reported separately to the BHP Audit & Finance Sub-Committee.	Limited	

New audits being reported as final – 2010/11 Audits

Audit	Status as at 15 September 2010	Assurance Opinion	
Traffic Management (10/11)	Final Report We raised two priority 1 recommendations as a result of this audit. These were as follows: <ul style="list-style-type: none"> <li>A regular report of all FPNs that have not been issued should be produced, and checks should be completed to ensure that FPNs have only been cancelled in line with the policy. As part of the checks, warnings issued to promoters should also be reviewed to confirm that warnings are being issued where a decision is made to cancel an FPN, as well as to check that an excessive number of warnings is not being given to any one contractor rather than issuing an FPN; and</li> <li>In any instance where the 30 day period expires without the payment having been received, an official invoice should be promptly raised on Oracle.</li> </ul> Three priority 2 recommendations were also raised where changes can be made in order to achieve greater control.	Substantial	 



Audit	Status as at 15 September 2010	Assurance Opinion	
	<p><b>All of our recommendations were accepted for implementation by management.</b></p> <p>Although the assurance opinion was unchanged from the previous audit undertaken in 2009/10, we considered that there had been a positive movement in the robustness of the control environment, as indicated by the Direction of Travel assessment. This was based on the status of implementation of the previously raised recommendations. Of the 13 recommendations previously raised, 11 were judged to have either been fully or partly implemented. Any further actions required were raised and agreed with management within the report.</p>		
<p>Experian Payments Gateway (IT) (10/11)</p>	<p>Final Report.</p> <p>No priority 1 recommendations were raised as a result of this audit.</p> <p>However, we raised eight priority 2 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p>	Substantial	
<p>Housing Provision for 16-17 year olds (10/11)</p>	<p>Final Report</p> <p>One priority 1 recommendation was raised as a result of this audit.</p> <p>This was as follows:</p> <ul style="list-style-type: none"> <li>• Management should remind staff that a Pre-Assessment Checklist is required to be completed by the person conducting the initial interview.</li> </ul> <p>Upon completion, the checklist should be signed, scanned and stored on the central database.</p> <p>Four priority 2 recommendations were also raised where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p>	Substantial	

Audit	Status as at 15 September 2010	Assurance Opinion	
School Admissions (10/11)	<p>Final Report</p> <p>There were no priority 1 recommendations raised as a result of this audit. However, three priority 2 and one priority 3 recommendations were raised where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management.</b></p>	Substantial	
SAS Data Migration (IT) (10/11)	<p>Final Report.</p> <p>As part of the 2010/11 Plan, Computer Audit work is being undertaken in relation to the migration to the Single Accounting System. As agreed with management, the work has been split into two stages, the first of which was completed prior to the migration, focusing on the adequacy of the controls being planned as part of the Migration Strategy. The second stage will be undertaken post migration, assessing the extent to which these controls were complied with.</p> <p>One priority 1 recommendation was raised as a result of the first stage of the work. This was as follows:</p> <ul style="list-style-type: none"> <li>• The following sign offs from the business should be obtained and included within the SAS Data Migration Plan: <ul style="list-style-type: none"> <li>○ Confirmation of the accuracy, validity and completeness of the cleansed, consolidated supplier and customer data before it is loaded to Oracle; and</li> <li>○ Confirmation that the static data has been accurately transferred and mapped to the correct screens and fields.</li> </ul> </li> </ul> <p>We also raised two priority 2 recommendations where changes can be made in order to achieve greater control.</p> <p><b>All of our recommendations were accepted for implementation by management – in this instance, the migration has now happened and management have confirmed that the recommendations were implemented as part of it. We have not verified this, but will do so in the</b></p>	N/A	N/A

Audit	Status as at 15 September 2010	Assurance Opinion	
	second stage of the work.		

### Audits currently at draft report stage or in progress

The table below lists those audits for which the management responses to the Draft Report are still in the process of being discussed and agreed, or for which we are still awaiting receipt of these responses, or where the audit is currently in progress. As noted in the Executive Summary, we will update Members on the assurance opinions and key findings at the next meeting once these have been finalised.

Audit	Status as at 15 September 2010
Ark Academy (Contract Audit) (09/10)	Awaiting Management Responses to the Draft Report. No response was received to our 2008/09 audit. The recommendations were followed-up as part of the 2009/10 audit and the 2009/10 report included all outstanding issues in addition to any new recommendations being raised. The Draft Report was issued in May 2010 and responses have been chased.
Government Procurement Cards (09/10)	Awaiting Management Responses to the Draft Report. The Draft Report was issued in November 2009. Management responses have not been finalised as the recommendations are being considered as part of the wider Finance Modernisation Project.
Kilburn Square TMO	Awaiting Management Responses to the Draft Report. The Draft Report was issued in February 2010 and responses have been chased.
Self Directed Support	Awaiting Management Responses to the Draft Report.
Corporate Property Service Model	Awaiting Management Responses to the Draft Report.
Local Area Agreement Data Management	Awaiting Management Responses to the Draft Report.
Business Continuity Planning	Awaiting Management Responses to the Draft Report.
St Gregory's Science College	In Progress.
Kingsbury High School	In Progress.
Jews Free School	In Progress.
Alperton Community School	In Progress.

Audit	Status as at 15 September 2010
Claremont High School	In Progress.
Copland Community School	In Progress.
Wembley High Technology College	In Progress.
Cardinal Hinsley Mathematics and Computing College (now Newman Catholic College)	In Progress.
Convent of Jesus & Mary Language College	In Progress.
Queen Park Community School	In Progress.
Debt Management	In Progress.
Service Planning and Performance Management	In Progress.
Early Year Single Funding Formula	In Progress.
CRC Energy Efficiency Scheme	In Progress.
Service Planning and Performance Management	In Progress.
Northgate Revenues & Benefits Application (IT)	In Progress.
IP Telephony (IT)	In Progress.
Residents Associations (BHP)	In Progress.
BHP – Recruitment	In Progress
BHP – Budget Monitoring	In Progress
Direct Payments – Children Social Care	In Progress
Fostering & Adoption Payments	In Progress
Licensing	In Progress

## FMSIS Assessments

The table below lists those primary schools for which an FMSiS assessment has been undertaken during the 2010/11 financial year to date, as well as those undertaken in 2009/10 for which the outcome had not been finalised at the time of the last meeting.

The assessments are required to be undertaken in accordance with the guidance issued by the Department for Children, Schools and Families (DCSF) and differ to the standard internal audits. Assurance opinions are not relevant as the schools receive either a Pass, Conditional Pass or Fail against the Standard.

As noted in the main body of the report, assessment outcomes are currently being reviewed in light of the issues regarding leasing arrangements.

School	Assessment Outcome	Status as at September 2010
<b>2010/11 Assessments</b>		
Kingsbury High School	To be determined.	Draft Report to be issued.
Jews Free School	To be determined.	Draft Report to be issued.
Alperton Community School	To be determined.	Draft Report to be issued.
Claremont High School	To be determined.	Draft Report to be issued.
Copland Community School	To be determined.	Draft Report to be issued.
Convent of Jesus & Mary Language College	To be determined.	Draft Report to be issued.
Queens park Community School	To be determined.	Draft Report to be issued.
<b>2009/10 Assessments</b>		
Preston Manor High School (Secondary – Foundation)	Pass	Final Report issued.
Chalkhill Primary School	Pass	Final Report issued.
St Gregory's Science College	Conditional Pass	Currently determining the final outcome.

School	Assessment Outcome	Status as at September 2010
(Secondary – Foundation)		
Wembley High Technology College	To be determined.	Draft Report to be issued.
Cardinal Hinsley	To be determined.	Draft Report to be issued.
Furness Primary School	Conditional Pass	Currently determining the final outcome.
Vernon House School	Conditional Pass	Currently determining the final outcome
Braintcroft Primary School	Still to be assessed. Assessment postponed to 2010/11 as School has just come out o Special Measures.	Assessment Scheduled for January 2011
<b>2008/09 Assessments</b>		
John Keble C.E Primary School	Conditional Pass	Currently determining the final outcome.

## Follow-Up of Previously Raised Recommendations

The table below provides a summary of the findings from the follow-up work completed during the year to date, excluding any BHP recommendations.

Our approach is explained within the Executive Summary. Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI); or in some cases no longer applicable (N/A), for example if there has been a change in the systems used.

For any recommendations found to have only been partly implemented or not implemented at all, further actions have been raised with management. As such, we have included all recommendations followed-up to date, including Draft Follow-Up Reports, as well as those that have been finalised. Where the reports have been finalised, the further actions have been agreed with management, including revised deadlines and responsible officers. For those at Draft stage, we are awaiting responses from management. All agreed further actions will be added to our rolling follow-up programme as explained in the Executive Summary to this report.

The table includes a column to highlight any priority 1 recommendations which were found not to have been fully implemented. Please note that we have not replicated the full recommendation, only the general issue to which they relate.

Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Waste Management	3	-	-	1	-	-	-	-	-	4	-	-	-	N/A
Blue Badges	1	1	-	1	1	-	-	-	-	2	2	-	-	N/A
Freedom Passes	3	-	-	3	1	-	1	1	-	7	2	-	-	N/A
Joint Commissioning	2	-	-	1	-	-	-	-	-	3	-	-	-	N/A
Section 106	1	2	-	-	2	1	-	-	-	1	3	1	-	N/A
Traffic Management	1	1	-	3	3	-	1	-	-	5	4	-	1	N/A
Curzon Crescent Children's Centre / Nursery	3	4	-	3	2	3	1	-	-	7	6	3	2	N/A
Complaints	1	3	-	2	4	-	-	-	-	3	7	-	-	N/A
Recruitment (DRAFT)	2	1	-	3	1	1	-	-	-	5	2	1	-	N/A
Appointeeships & Deputyships (DRAFT)	1	-	-	2	2	-	-	-	-	3	2	-	-	N/A
Facilities Management	-	1	-	1	3	1	-	-	-	1	4	1	-	N/A



Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
(DRAFT)														
Corporate Health & Safety (DRAFT)	2	1	-	-	-	-	-	-	-	2	1	-	-	N/A
	19	11	-	18	15	6	3	1	-	43	33	6	3	

Two additional follow-up exercises for which the reports are still at Draft stage relate to the following audits:

- Schools Thematic Work on Procurement; and
- Children & Families Imprest Accounts.

Both reports were issued at the end of March 2010. Management responses to the further actions required have been chased, but are yet to be received. The status of implementation for these recommendations is as follows:

Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Children & Families Imprest Accounts (DRAFT)	2	1	1	2	4		2			6	5	1		<ul style="list-style-type: none"> <li>• Authorised Signatory List.</li> </ul>

For the Schools Thematic Work on Procurement, we did not raise recommendations in our standard format and priorities were not assigned. Instead, management developed an action plan in response to our findings. From the follow-up work undertaken, limited progress has been made against these actions.





## Customer Satisfaction

We set out below a breakdown of the feedback received through the Customer Satisfaction Questionnaires, as completed by auditees for work undertaken to date by Deloitte against the 2010/11 Internal Audit Plan.

5 = Excellent; 4 = Very Good; 3 = Satisfactory; 2 = Potential for Improvement; and 1 = Unsatisfactory.

Audit	Sufficient notice was provided prior to the start of the audit	Communication of audit objectives, purpose and scope	Effectiveness and professionalism of the auditor(s)	Auditor(s) understanding of the service you provide	Quality of exit meeting and discussion of report findings	Quality, accuracy and usefulness of the report	Overall opinion of the audit
Traffic Management	5	4	5	5	5	4	<b>5</b>
Housing Provision	4	4	5	5	4	5	<b>5</b>

## Appendix A – Audit Team and Contact Details

London Borough of Brent		Contact Details	
Simon Lane	– Head of Audit & Investigations		<a href="mailto:simon.lane@brent.gov.uk">simon.lane@brent.gov.uk</a>
Aina Uduehi	– Audit Manager		020 8937 1260
			<a href="mailto:aina.uduehi@brent.gov.uk">aina.uduehi@brent.gov.uk</a>
			020 8937 1495

Deloitte & Touche Public Sector Internal Audit Limited		Contact Details	
Richard Evans	– General Manager		<a href="mailto:phil.lawson@brent.gov.uk">phil.lawson@brent.gov.uk</a>
Phil Lawson	– Senior Audit Manager		020 8937 1493
Shahab Hussein	– Senior Computer Audit Manager		

## Appendix B – Progress Against the 2010/11 Internal Audit Plan

The table below sets out the detailed progress made against the agreed 2010/11 Internal Audit Plan, together with an indication of any instances where an audit has been removed from the Plan, any where an audit has been added or the planned days amended, and also any for which the planned timing has had to be amended. All amendments against the originally agreed Plan are shown in italics.

**Table 1 – Overall Plan**

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
<b>CROSS COUNCIL AUDITS (87 Days) (reduced to 72)</b>					
Conflicts of Interest	12	To focus on the controls in place with regards to ensuring that officers and Members avoid any conflicts of interest in their respective roles and responsibilities. Specifically, the controls for ensuring that officers and Members declare any interests / gifts & hospitality; that gifts & hospitality are only accepted in line with Council policy; and that appropriate follow-up actions are taken to ensure that any officers or Members declaring interests / gifts & hospitality are operating in an appropriate manner.	Tracey Connage – Assistant Director, Human Resources	Qtr 2/3	Audit scheduled for 3 <sup>rd</sup> quarter.
Service Planning and Performance Management	20	To focus on the controls in place across the Council with regards to the formulation of service plans and the performance	Cathy Tyson – Assistant Director, Policy	Qtr 2	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>management arrangements surrounding the delivery of these. Specifically, the controls in place around ensuring that service priorities are in line with the Corporate Strategy; that service priorities meet the needs of the borough's residents and other key stakeholders; that service priorities are realistic and achievable from a funding and resource perspective; and that agreed service priorities are delivered/achieved in a full and timely manner.</p> <p>It should be noted that the performance management aspects of this audit will only be covered at a high level and will focus on the controls in place around monitoring the achievement of the primary level service priorities across the Service Areas, including the arrangements for reporting and corrective actions where appropriate.</p>			
Business Continuity Planning	10	Business Continuity Planning (BCP) was previously audited in 2007/08 and 2008/09, following the inception of the BCP project in February 2007. This audit will now check on the further	Martyn Horne – Head of Emergency Planning & Business	Qtr 3 ( <i>moved to Qtr 2</i> )	Draft Report Issued – Awaiting Management Responses

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		developments that have taken place, assessing the extent to which the arrangements have been embedded across the Council.	Continuity		
CRC Energy Efficiency Scheme	15	<p>To focus on the controls in place around the gathering, compilation and validation of required data as part of the submission of the 'year 1' figures to the Environment Agency (EA).</p> <p>In addition, we will check on progress against the Action Plan being agreed as part of the 2009/10 work in this area, as well as assessing the apparent adequacy of the evidence pack compiled to support the figures reported (although this would provide no guarantee as to the outcome should the Council be selected for an audit by the EA).</p> <p>The specific timing is to be determined, but should fall within the reporting window of 1 April to 30 September 2010.</p>	Duncan McLeod – Director of Finance & Corporate Resources	Qtr 1/2	In Progress.
Grants	15 (reduced to 0)	This allocation of days has been included within the Plan following discussions with the Audit Commission regarding their grants certification work.	To be determined	To be determined	Audit removed from the Plan following discussions with the Audit

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>The aim is to determine, in conjunction with the Audit Commission, whether Internal Audit work can be undertaken in respect of the systems in place to compile grant claims, i.e. the controls in place around the gathering, verification and reporting of data, thereby reducing the work required to be undertaken by the Audit Commission as part of the certification process.</p> <p>Further discussion will take place once the list of grants requiring certification in 2010/11 has been published. Selection of grants, if appropriate, would be on the basis of risk and hence the time that would normally be required to be spent on such work by the Audit Commission.</p> <p>Dependant upon the robustness of the existing controls, the benefits of such an approach may either be realised within the 2010/11 financial year, or potentially in future years if it is necessary for management to address weaknesses before the Audit Commission can place reliance on them.</p>			<p>Commission regarding proposed involvement. They will undertake the work as normal.</p>

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Annual Governance Statement	15	Formulation of the Annual Governance Statement through the co-ordination of the completion of the Certificates of Assurance by Directors and the annual review of the Council's Corporate Governance Action Plan.	Simon Lane – Head of Audit & Investigations / Directors	Qtr 4	N/A
<b>CROSS BOROUGH WORK (20 Days)</b>					
Cross Borough Work	20	<p>This allocation of days has been included within the Plan to allow for the completion of work across the members of the West London Internal Audit Framework.</p> <p>At this stage, specific areas of focus have not been determined and this will be considered during the course of the year in conjunction with the Directors of Finance and Heads of Audit.</p> <p>Two possible areas for consideration, as suggested by the Director of Housing &amp; Community Care, are the West London Procurement Project and Supporting People.</p>	To be determined	To be determined	N/A



AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
<b>FINANCE &amp; CORPORATE RESOURCES (125 Days)</b>					
Council Tax	15	Annual systems audit focussing on key controls and any systems changes.	Paula Buckley – Head of Client Team, Revenue & Benefits	Qtr 3	N/A
NNDR	15	Annual systems audit focussing on key controls and any systems changes.	Paula Buckley – Head of Client Team, Revenue & Benefits	Qtr 3	N/A
Housing & Council Tax Benefits	15	Annual systems audit focussing on key controls and any systems changes.	David Oates – Head of Benefits, Revenue & Benefits	Qtr 3	N/A
Treasury Management	10	Annual systems audit focussing on key controls and any systems changes.	Martin Spriggs – Head of Exchequer & Investment	Qtr 1 ( <i>moved to Qtr 2</i> )	Commences in September.
Debt Management	10	This audit follows on from our initial work undertaken in 2009/10 to assess the adequacy of the controls being designed and placed into operation by the new corporate Sundry Debt Recovery Team (SDRT).  This audit will check on the extent to which the control processes have been further developed, in line with the action plan agreed as part of the 2009/10 work. Adequacy will be	Sarah Cardno – Exchequer Services Manager	Qtr 3 ( <i>moved to Qtr 2</i> )	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		reassessed and the effectiveness of controls evaluated.			
Capital Budgeting	10	To focus on the controls in place around the setting and management of the budget for the overall capital programme and specific projects within it.	Mark Peart – Head of Financial Management / Paul May – Capital Accountant	Qtr 2	September 2010.
<b>Migration to the Single Accounting System and Key Financial Systems work post 1 September 2010</b>	50	As detailed in the main body of the report, at this stage, it is anticipated that coverage will be needed in relation to the migration to the single accounting system and then in respect of the revised financial management structures post 1 September 2010. Work in relation to the migration is likely to be combined between general audit and computer audit. The specific areas of coverage will be agreed during the course of the year.	Duncan Mcleod – Director of Finance & Corporate Resources / Mick Bowden – Deputy Director of Finance & Corporate Resources	To be determined	N/A
<b>CHILDREN &amp; FAMILIES (240 Days) (increased to 282)</b>					
School Audits and FMSiS Assessments – Secondary (Foundation) Schools	88	Completion of joint audits and FMSiS assessments for the remaining seven secondary (Foundation) schools. The audit will allow additional coverage in high risk areas.	Bharat Jashapara – Head of Finance, Children & Families	Across the year	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		Estimation at this stage is for an allocation of 12 days per school. Allocation of days includes time for liaising with Education Finance with regards to any issues arising from the work during the course of the year.			
School Audits – Primary (Foundation) Schools	20	Completion of audits for two primary (Foundation) schools, one of which will also be re-assessed under the FMSiS following a 'Fail' in 2009/10.  Estimation at this stage is for an allocation of 8 days for the school only requiring an audit and 12 for the school needing an audit and FMSiS re-assessment.	Bharat Jashapara – Head of Finance, Children & Families	Across the year	N/A
FMSiS re-assessments for primary/junior schools that failed in 2009/10	15 (reduced to 0)	<i>It was originally anticipated that a total of five schools were going to receive a 'Fail' against the FMSiS in 2009/10 (in addition to the one primary Foundation school above). At this stage, that has not been the case, although the position is still under review. For now, the days have been removed.</i>	Bharat Jashapara – Head of Finance, Children & Families	Across the year	Days removed from the Plan as explained under the updated 'Proposed Coverage'.
School Audits and FMSiS Assessments – primary/junior schools	18 (increased to 110)	Completion of joint audits and FMSiS assessments for the three primary/junior schools that	Bharat Jashapara – Head of Finance, Children & Families	Qtr 4	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
due for their three year re-assessment		<p>initially gained a 'Pass' at the end of the 2007/08 financial year and who are therefore due their three year re-assessment.</p> <p><i>The original estimation was for an allocation of six days per school. This was based on the volume of primary and junior schools that will require re-assessing over the following two years. The audit will allow additional coverage in high risk areas. However, on the basis of the work undertaken with the Foundation schools, it is now estimated that 10 days will be required per school.</i></p> <p><i>Given the increase in the overall contingency balance, the number of schools has been increased from three to 11. This will help to reduce the number of days needing to be allocated to re-assessments in the following two financial years.</i></p>			
Schools Thematic Work	15 (reduced to 0)	To focus on a specific theme(s) and visit a sample of schools to either assess compliance with the requirements of the Financial Regulations for Schools, or to assess the adequacy and effectiveness of	Bharat Jashapara – Head of Finance, Children & Families	To be determined	Days removed from the Plan so as to allow additional time to be spent on undertaking three year FMSiS re-

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>controls in respect of fraud and non-fraud risks in that area.</p> <p>A specific theme(s) has yet to be determined, but will be derived from an analysis of key areas of weakness identified across the schools in recent years, including through the audits being undertaken with the Foundation schools at the current time and in the first quarter of 2010/11.</p> <p>Thematic work was previously undertaken in 2008/09, focussing on Procurement and compliance with the Financial Regulations for Schools.</p>			<p>assessments of primary/junior schools.</p> <p>This will help reduce the total number of days required to be allocated to such work over the course of the following two financial years.</p>
Building Schools for the Future (Contract Audit)	10 ( <i>reduced to 0</i> )	<p>An initial high level audit of the programme within Brent. Further audit work will be undertaken as the programme progresses, including looking at specific projects within this, but contracts are not due to be in place during 2010/11.</p> <p>Contract audit work has previously been undertaken in relation to a number of schools capital projects, including the construction of the Ark Academy.</p>	Saiyyidah Stone – Assistance Director, Building Schools for the Future	To be determined	Audit removed from the Plan given the decision by the Government to end the scheme.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Common Assessment Framework	10	<p>This area was previously audited in 2008/09, looking at the controls being put in place as part of the implementation of the Framework, as well as the overall management of the implementation project.</p> <p>This audit will now check on the further developments that have taken place, assessing the extent to which the Framework has been embedded. In addition, we understand that the area is subject to a restructure and hence the systems of control may be subject to amendment.</p>	Krutika Pau – Assistant Director, Strategy & Partnerships/ Christiana Baafuo-Awuah – Integrated Services Manager	Qtr 3	N/A
Direct Payments and Respite Care	12	To focus on the controls in place around direct payments and the provision of respite care to children, including the assessment of eligibility; payment/provision; and monitoring of outcomes.	Rik Boxer – Assistant Director, Achievement & Inclusion / Graham Genoni – Assistant Director, Social Care	Qtr 1 ( <i>moved to Qtr 2/3</i> )	In Progress.
School Admissions	10	From September 2010, a change in admissions legislation (Admissions Code 2009) requires all 'in-year' applications for school places to be made through the Local Authority. Previously this was done directly with the schools.	Mustafa Salih – Assistant Director, Finance & Performance / Carmen Coffey – Head of Communication & Support Services	Qtr 1	Final Report issued.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		The audit will assess the adequacy of the controls put in place to administer this, as well as the wider admissions process.			
Youth Service and Connexions Amalgamation	10	The specific coverage is still to be discussed and agreed with the Assistant Director, Achievement & Inclusion, but will relate to the forthcoming amalgamation of the Youth Service and Connexions, focusing on the adequacy and effectiveness of the systems of control that are created as a result of this. Specific focus is likely to be around financial management controls.	Rik Boxer – Assistant Director, Achievement & Inclusion	Qtr 3	Unlikely to go ahead now due to issues relating to Connexions. To be confirmed with Rik Boxer whether this audit is still required.
Fostering & Adoption Payments	10	The specific coverage is still to be discussed and agreed with the Assistant Director, Social Care, but will relate to the controls in place around payments to foster carers and adopters.  This follows previous work in this area and will assess the adequacy and effectiveness of the controls that management have been further developing.	Graham Genoni – Assistant Director, Social Care	Qtr 2	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
14-19 Provision	12	The specific coverage is still to be discussed and agreed with the Assistant Director, Strategy & Partnerships, but will relate to the new arrangements from 2010/11, in respect of the Local Authority taking responsibility for the commissioning of services for 14-19 year olds, as previously within the remit of the Learning & Skills Council (LSC)	Krutika Pau – Assistant Director, Strategy & Partnerships / Sarah Mansuralli – Head of Joint Strategy & Commissioning	Qtr 3	May not go ahead due to changes announced by new Govt.
Early Years Single Funding Formula	10	To focus on the controls in place over the application of the formula, including the setting of rates and the collection and validation of data from service providers.	Mustafa Salih – Assistant Director, Finance & Performance	Qtr 1	In Progress.
<b>ENVIRONMENT &amp; CULTURE (60 Days)</b>					
Parking	20	The specific area of focus is still to be determined with the Assistant Director, Streets & Transportation.  Potential areas include parking enforcement; on/off street meters; parking permits; and management of the parking enforcement contract.  However, from initial discussions, we understand that the Parking Service is going to	Irfan Malik – Assistant Director, Streets & Transportation	To be determined	N/A



AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>be subject to a Lean Fundamentals review. As was the case when BHP undertook a similar style review of their responsive repairs function, an initial suggestion is that it may therefore be appropriate for us to undertake work to assess the adequacy of controls as part of any planned revisions to the current ways of working. Such work may be followed by a standard systems based audit following the implementation of any revisions.</p> <p>The number of days allocated may be adjusted depending on the agreed areas of focus and/or approach.</p>			
Libraries	20	<p>To focus on the systems of control in place following the recent restructuring of the Library Service, including the controls in place centrally to ensure compliance across individual libraries.</p> <p>As part of the audit we may also visit a sample of libraries to assess the adequacy and effectiveness of controls being operated locally. This will be discussed and agreed with</p>	Sue Harper – Assistant Director, Leisure & Regeneration	Qtr 3	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		management at the time the audit is being planned.			
Licensing	12	To focus on the controls in place around the award of licenses; monitoring compliance with license conditions; enforcement actions; income collection; and budget monitoring.  The range of licenses to be focused on is still to be determined.	Geoff Galilee – Service Unit Director, Health, Safety & Licensing	Qtr 2	Postponed to October.
Traffic Management	8	This audit follows on from our initial work undertaken in 2009/10 around the preparedness of the Council in relation to the implementation of the London operational Permit Scheme (LoPS).  This audit will check on the extent to which the control processes have been further developed, in line with the action plan agreed as part of the 2009/10 work. Adequacy will be reassessed and the effectiveness of controls evaluated.	Irfan Malik – Assistant Director, Streets & Transportation	Qtr 2	Final Report issued.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
<b>HOUSING (32 Days)</b>					
Temporary Accommodation	10	Specific coverage is still to be discussed and agreed with the Assistant Director, Housing Needs / Private Sector, but will relate to the ongoing work being undertaken to reduce the numbers in temporary accommodation and the management of budgets in association with this.	Perry Singh – Assistant Director, Housing Needs / Private Sector / Helen Clitheroe – Head of HRC	Qtr 4	N/A
Housing PFI	10	To focus on the controls in place around the high level management and oversight of the Housing PFI, as being delivered by the Brent Coefficient, a consortium of Hyde Housing Group and Bouygues UK Limited.	Maggie Rafalowicz – Assistant Director, Housing Strategy & Regeneration	Qtr 3/ To be determined	Not yet clear what impact changes in corporate structure will have on this audit.
Housing Provision for 16-17 year olds	12	Specific coverage is still to be discussed and agreed with the Assistant Director, Housing Needs / Private Sector, but will relate to the work being undertaken by Housing, in conjunction with Children & Families, in relation to the provision of housing support for 16-17 year olds who present	Perry Singh – Assistant Director, Housing Needs / Private Sector	Qtr 1	Final Report issued.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		themselves as homeless. Various pieces of legislation are relevant, together with the 'Southwark Judgement' made by the House of Lords on 20 May 2009.			
<b>COMMUNITY CARE (80 Days) (reduced to 70)</b>					
Transformation – Self Directed Support / Direct Payments	15	<p>To focus on the progress made in the development and implementation of the systems of control in respect of Self Directed Support.</p> <p>This area was previously audited as part of the 2008/09 Plan and this further work has been postponed from 2009/10.</p> <p>The work will also include a follow-up of the work that was undertaken around Direct Payments in 2008/09.</p>	Lance Douglas – Assistant Director, Quality & Support	Qtr 1	Draft Report issued – awaiting management responses.
Transformation – Reablement	8	<p>To focus on the progress made in the development and implementation of the systems of control in respect of Reablement.</p> <p>This area has been audited as part of the 2009/10 Plan.</p>	Lance Douglas – Assistant Director, Quality & Support	Qtr 4 ( <i>moved to Qtr 3</i> )	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Transformation – Community Equipment	10 <i>(increased to 15)</i>	<p>To focus on the adequacy of the systems of control being designed and placed into operation in respect of the Community Equipment workstream of the Transformation Programme.</p> <p>This area is a new addition to the Transformation Programme and has not been looked at previously.</p> <p><i>We have now discussed this further with the key contact and it has been agreed that the work will be undertaken in two stages. The first will focus on the adequacy of what is being designed, as above. The second stage will then take place once the controls have been implemented, so as to also assess the effectiveness of their operation.</i></p>	Lance Douglas – Assistant Director, Quality & Support	To be determined ( <i>first stage was confirmed for Qtr 2 but may now be postponed, second stage may take place in Qtr 4</i> )	N/A
Establishments Thematic Work	20	To focus on specific themes and visit a sample of establishments to either assess compliance with the requirements of the Financial Regulations, or to assess the adequacy and effectiveness of controls in respect of fraud and non-fraud risks in that area.	Alison Elliot – Assistant Director, Community Care	To be determined	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>Specific themes have yet to be determined, but will be derived from an analysis of key areas of weakness identified across the establishments in recent years. Initial indications from the Director of Housing &amp; Community Care are that procurement, budgetary control and the recruitment of agency staff would be key areas for consideration.</p> <p>This work will follow on from our establishments work in 2009/10 which has involved producing a summary report of the key areas of weakness, together with added guidance around the controls that should be in place to address these.</p>			
Adult Assessment Framework	15 ( <i>reduced to 0</i> )	To focus on the controls in place around the assessment and monitoring of adults and older people, taking account of the changes made through the Transformation Programme.	Alison Elliot – Assistant Director, Community Care / Lance Douglas – Assistant Director, Quality & Support	Qtr 2	Audit removed from the Plan following discussions with the key contacts. Determined that sufficient coverage as part of the Self Directed Support / Direct Payments.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Use of Frameworki	12	Specific coverage is still to be discussed and agreed with the Assistant Director, Community Care and the Assistant Director, Quality & Support, but will relate to the controls in place around the use of Frameworki and the monitoring of such usage.  Previous internal audit work has been undertaken from an IT perspective, in terms of the application itself, whereas this audit is to focus on usage from an operational perspective.	Alison Elliot – Assistant Director, Community Care / Lance Douglas – Assistant Director, Quality & Support	Qtr 2	N/A
<b>BUSINESS TRANSFORMATION (192 Days)</b>					
IT	155	A Computer Audit Needs Assessment has been undertaken in conjunction with ITU to refresh our strategic IT Plan.  The Plan for 2010/11 is detailed separately within Table 2.	<i>Separate IT Plan</i>	<i>Separate IT Plan</i>	N/A
Payroll	15	Annual systems audit focussing on key controls and any systems changes.	Simon Britton – Head of The People Centre / Barry Hilder – Head of Payroll	Qtr 3	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Pensions Administration	10	Highlighted by the Audit Commission as a high risk area they would like included within the Plan.	Simon Britton – Head of The People Centre / Andy Gray – Pensions Manager	To be determined	To be confirmed following discussions with SB/AG
Civic Centre (Contract Audit)	12	To focus on the controls in place over the management of the project for constructing the new Civic Centre.  Initial audit work has been undertaken as part of the 2009/10 Plan and the intention, as with other large capital projects, is for us to undertake stage audits through until completion of the project.	Aktar Choudhary – Assistant Director, Business Transformation	To be determined	N/A
<b>ONE COUNCIL IMPROVEMENT &amp; EFFICIENCY PROGRAMME (65 Days)</b>					
<b><i>Specific involvement / coverage to be determined</i></b>	65	As detailed in the main body of the report, an approach has already been agreed with regards to the Finance Modernisation project, and work has begun on this as part of the 2009/10 Plan. Further input in respect of this project is expected for 2010/11 and will form part of the 75 day allocation.  Further areas of coverage will	Phil Newby – Director of Policy & Regeneration / Project Leads	-	Draft Report issued in relation to the Strategic Property Review. Further work to be determined.



AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		be discussed and agreed during the course of the year, but may focus on the following three Gold Projects: <ul style="list-style-type: none"> <li>• Strategic Property Review;</li> <li>• Strategic Procurement Review; and</li> <li>• Re-shaping Customer Contact.</li> </ul>			
<b>POLICY &amp; REGENERATION (35 Days) (reduced to 15 days)</b>					
Local Area Agreement (LAA) – Data Management	15	To focus on the controls in place around the management of performance data relating to the LAA, including the collection and compilation of data; validation and checking of data completeness and accuracy; and reporting of data.  Previous Internal Audit work has been undertaken in 2008/09 and 2009/10 with regards to the LAA Stretch Targets. Progress against the recommendations made will be assessed as part of this audit.	Cathy Tyson – Assistant Director, Policy	Qtr 2	Draft Report issued – awaiting management responses.
Joint Venture – Working Links	10 (reduced to 0)	The specific coverage is still to be discussed and agreed with the Assistant Director, Regeneration, but will relate to	Andy Donald – Assistant Director, Regeneration	To be determined	Audit removed from the Plan on the basis of discussion with

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		the adequacy of the controls being planned and implemented in respect of the planned joint venture with Working Links.			the key contact.
Joint Venture – South Kilburn	10 (reduced to 0)	The specific coverage is still to be discussed and agreed with the Assistant Director, Regeneration, but will relate to the adequacy of the controls being planned and implemented in respect of the planned joint venture regarding South Kilburn.	Andy Donald – Assistant Director, Regeneration	To be determined	Audit removed from the Plan on the basis of discussion with the key contact.
<b>COMMUNICATION &amp; DIVERSITY (0 Days)</b>					
<b>No audits planned at this stage</b>	<b>0</b>				
<b>BOROUGH SOLICITOR (0 Days)</b>					
<b>No audits planned at this stage</b>	<b>0</b>				
<b>OTHER</b>					
<b>Brent Housing Partnership (BHP)</b>	135	The detailed Plan has been formulated in conjunction with BHP's Director of Finance,	<i>Separate BHP Plan</i>	<i>Separate BHP Plan</i>	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>Financial Controller and Financial Operations Manager.</p> <p>The Plan was approved by BHP's Audit &amp; Finance Sub-Committee on 24 March 2010.</p> <p>The total number of days has increased slightly to take account of BHP's expanded role since the purchase of Granville New Homes.</p>			
<b>Consultation, Communication and Reporting (Deloitte)</b>	80	<p>To cover attendance by Deloitte management at meetings across the Council, for example Strategic Finance Group, Schools Causing Financial Concern, and Audit &amp; Investigations Management meetings. Also to cover Deloitte management attendance at Audit Committee meetings and the production of progress reports for these. In addition, to cover Deloitte managements' non-audit specific liaison and communication with officers across the Council on a day-to-day basis and with the Council's external auditors, the Audit Commission. For example, ongoing liaison with Directors and Assistant Directors</p>	N/A	Throughout the year	In Progress

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		regarding any necessary revisions to the Plan and communication of key issues arising from completed internal audit work, and liaison with the Audit Commission regarding their review of completed internal audit work.			
<b>Follow-Up</b>	40	Completion of follow-up work as part of the rolling follow-up programme, into which all recommendations raised are added.	N/A – dependent upon each internal audit to be followed-up	Throughout the year	In Progress.
<b>Contingency</b>	13	To be allocated to any new developments or new / emerging risk areas during the course of the year.  In the event that additional work is required for which insufficient contingency days are available, a decision will be made on whether other lower risk audits can be deferred until 2011/12.	N/A – dependent upon work required	N/A – dependent upon work required	
<b>TOTAL</b>	<b>1,201</b>				

Table 2 – IT Plan

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Oracle Financials – Extended Follow-Up of Previous Audits <i>(changed to a high level follow-up)</i>	13 <i>(reduced to 3)</i>	<p>To follow-up on all outstanding recommendations raised across the various audits undertaken in respect of the implementation of Oracle in 2007/08, 2008/09 and 2009/10.</p> <p>In addition, in conjunction with management, it will be determined whether there are specific risk areas regarding the application for which additional controls testing and assessment are required.</p> <p><i>As agreed with the key contact, this will only now be a high level follow-up of the extent to which previous recommendations have been implemented. It will be based around a self assessment by management, with verification by Internal Audit as appropriate.</i></p>	Mark Peart – Head of Financial Management	To be determined	Awaiting completion of the self assessment by management.
Oracle Financials – Single Accounting System (SAS) Migration / Pre-Implementation	10	<p>The work will focus on the controls in place around the implementation and migration to the SAS on 1 September 2010.</p> <p>Coverage will be determined in conjunction with any non-IT internal audit work to be undertaken surrounding this key</p>	Mark Peart – Head of Financial Management	Qtr 2/3 (specific timing to be agreed with management around the 1 September 'go live' date)	Final Report issued in respect of the first stage of the work.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>migration.</p> <p><i>It has now been agreed that the work should be undertaken in two stages. The first involves examining the Migration Strategy to be followed. The second stage will be undertaken post migration, assessing the extent to which the planned controls were followed.</i></p>			
Oracle Financials – Electronic Payments (BACS)	10 (audit added to the Plan)	As requested by the key contact, we have added an audit in respect of the controls in place around the new electronic payments system (BACS).	Mark Peart – Head of Financial Management	Qtr 2	Final Report issued.
Oracle I-Procurement (changed to Oracle Post Implementation Audit)	10	<p>Work was previously undertaken in 2009/10 in respect of the I-Procurement module being piloted within Children &amp; Families.</p> <p>Specific coverage for 2010/11 is still to be determined with management, but further work has been requested regarding the full roll-out in conjunction with the SAS.</p> <p><i>As agreed with the key contact, this has been replaced with a post implementation audit to be undertaken in Qtr 4.</i></p>	Mark Peart – Head of Financial Management	To be determined (now Qtr 4)	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
Northgate Revenues & Benefits System – hosted at West Malling, to be hosted at Brent virtually – Application Audit	10	To focus on the controls in place for the Northgate R&B application (Council Tax and Housing Benefits. The areas covered in this audit will include access controls, data entry, data processing, data output, interfaces, support and maintenance.	Paula Buckley – Head of Client Team, Revenue and Benefits	To be determined	In Progress.
Manhattan Property Management System (Brent owned) – Application Audit	10	To focus on the application controls in place for the Manhattan Property Management System. The areas covered in this audit will include access controls, data entry, data processing, data output, interfaces, support and maintenance.	Tony Nixon – Lands Terrier Manager, Property & Asset Management	To be determined	N/A
Interact – Integrated Payroll and HR System (Logica) – Application Audit	10	To focus on the application controls in place for the Interact, integrated payroll and HR system. The areas covered in this audit will include access controls, data entry, data processing, data output, interfaces, support and maintenance.	Barry Hilder – Head of Payroll & Pensions	To be determined	N/A
Contender	10	To focus on the application controls in place for the Contender System. The areas covered in this audit will include access controls, data entry,	Graeme Maughan – Business Support Manager, StreetCare	To be determined	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		data processing, data output, interfaces, support and maintenance.			
PC & Laptop Controls	10	<p>An assessment of the PC and laptop asset management and security environment by evaluation and benchmarking of controls established and applied in the following areas:</p> <ul style="list-style-type: none"> <li>• Risk management;</li> <li>• Roles and responsibilities;</li> <li>• Security standards and procedures;</li> <li>• Security configuration settings;</li> <li>• System management trails;</li> <li>• Support and disposal arrangements;</li> <li>• Securing the mobile desktop; and</li> <li>• Technical security policy settings.</li> </ul>	Conrad Chambers – Network Manager	Q4	N/A
Data Protection & Freedom of Information (FOI)	15	<p>To assess data protection and freedom of information management arrangements in terms of:</p> <ul style="list-style-type: none"> <li>• Registration;</li> <li>• Ongoing awareness;</li> <li>• Data subject and FoI access</li> </ul>	Raj Seedher	Q3	N/A



AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		request management; and • Management reporting.			
Anti Virus Controls	10	Computer viruses can infect the Council's IT systems from a number of sources, including downloads from the internet and e-mail attachments to a user bringing in infected portable media. The result of an infection could range from temporary annoyance due to an increase in processing to the complete shutdown and corruption of the network. The recent trend has also been for systems to be infected with Spyware or programs that can cause re-direction to internet sites or the monitoring of users internet habits but have the effect of slowing down PCs. Virus and Spyware controls are designed to protect the Council's systems from such threats and this audit will assess whether the controls in place are sufficient and appropriately managed.	Conrad Chambers – Network Manager	Q3	N/A
Network Infrastructure	20	The network infrastructure enables users to connect to servers and equipment which is not directly connected to their own physical PC or workstation.	Conrad Chambers – Network Manager	Q3	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		This could be on the next desk (as in printers), other rooms, other buildings or even other countries depending on the type of network. A review of the network infrastructure will look at how the Council's network is accessed, how it is supported and monitored and how the network is secured against unauthorised access. As part of the audit we will use a Security Computer Audit Tool called SekChek to look at the Network Server Operating System (O/S) configuration and logical access controls.			
Mobile Device Security	10	This audit will look at the security and management of mobile devices at the Council and will concentrate on policies and procedures, security of mobile devices, management and inventory, usage policy, monitoring of usage and costs, procedures for reporting of lost/stolen device, support and disposal arrangements.	Prod Sarigianis – Business Support Manager	Q2	N/A
IPTelephony	10	Voice-over Internet Protocol (VoIP) communications can provide excellent value for money but can increase system	Conrad Chambers – Network Manager / Prakash Patel	Q2	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		<p>availability and confidentiality risks as VoIP is supported by a complex environment of standards.</p> <p>This audit is designed to assess the adequacy of the controls applied to the VoIP network, which inherits all the vulnerabilities linked with the underlying data network, by evaluation of the following areas:</p> <ul style="list-style-type: none"> <li>• Roles and responsibility;</li> <li>• Security (encryption and physical);</li> <li>• Segmentation and duplicate TCP / IP services;</li> <li>• Class of service;</li> <li>• Change controls; and</li> <li>• Management and support arrangements.</li> </ul>			
Unix Operating System Server Security,	7	An Operating system is an interface between the hardware and applications; it is responsible for the management and coordination of activities and the sharing of the limited resources of the computer. The operating system acts as a host for the application or the database that	Chris Shallis – Applications Support and Development Manager	Q3	N/A

AUDIT	DAYS	PROPOSED COVERAGE	INITIAL KEY CONTACT	PROPOSED TIMING	STATUS AS AT 15 SEPTEMBER 2010
		are run on the machine. Operating systems offer a number of services to application programs and users and as such its security configuration is important to maintain the integrity and availability of the application. As part of this audit we will look at the security configuration of the operating system.			
<b>TOTAL</b>	<b>155</b>				

**Table 3 – BHP Plan**

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 31 JULY 2010
Housing Repairs & Maintenance (responsive repairs)	12	Annual systems audit focussing on key controls and any systems changes. Inclusion on an annual basis is required in order to inform the work of the Council's external auditors.	Umesh Natalia – Head of Responsive Repairs	Qtr 3	N/A
Housing Rents	12	Annual systems audit focussing on key controls and any systems changes. Inclusion on an annual basis is required in order to inform the work of the Council's external auditors.	David Bishopp – Rent Accounting & Performance Manager	Qtr 3	N/A
Rent Arrears Management	10	To focus on controls over strategy & prevention; identification of arrears; follow up; referrals; debt write-off; management reporting and performance management.	Sandra Royer – Director of Housing Management / Janis Robert Edwards – Head of General Needs	Qtr 2/3	Audit arranged for end of September.
Budgetary Control	6	To focus on controls in place over budget setting and approval; budget upload; budget monitoring and reporting; and budget alterations and virements.	Greg Trenear – Financial Controller / David Babarinsa – Financial Operations Manager	Qtr 1/2	In Progress.
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within BHP and the extent to which Financial Regulations are being complied with. Specific areas of focus include the	Greg Trenear – Financial Controller / David Babarinsa – Financial Operations	Qtr 4	N/A

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 31 JULY 2010
		raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations. For 2010/11, specific coverage with regards to Granville New Homes will also be discussed and agreed with management. The planned days have been increased to reflect this.	Manager		
HR & Recruitment	10	To focus on controls over recruitment justification; job evaluation and person specifications; advertising of vacancies; shortlisting; assessment and selection interviews; employment checks; and induction.	Sejal Karia – Human Resources Manager	Qtr 2	Draft Report In Progress – delays due Manager being unavailable to discuss outstanding audit issues
Resident Involvement ( <i>Changed to Residents Associations</i> )	15	To focus on controls in place within Neighbourhood Services to manage the relationships and oversee the operation of Resident Associations (RAs) and Tenant Management Organisations (TMOs). In addition, in conjunction with the key contacts named opposite, we will identify a sample of RAs and TMOs for which we will assess the adequacy and/or effectiveness	Linda Footer – Head of Governance & Communications / Christina Byrne – Neighbourhood Services Manager	Qtr 2	In Progress.


AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 31 JULY 2010
		<p>of controls in place within them, with regards to key elements of their management and administration.</p> <p>An audit of 'Resident Involvement' was last undertaken in 2008/09, but the planned focus for 2010/11 differs to that previously followed.</p> <p><i>As agreed with the key contacts, this work is now focusing solely on the operations of Residents Associations.</i></p>			
Major Works (contract audit)	33	<p>Contract audit work in relation to major works projects has been undertaken across the 2008/09 and 2009/10 financial years. To date this has been undertaken outside of the Internal Audit Plan, as a programme of additional work, as approved by the Sub-Committee.</p> <p>For 2010/11, this allocation of days is being included within the Plan, from which specific contracts will be identified for coverage as appropriate.</p> <p>On the basis of the quantity of work undertaken to date and ongoing discussions with management, it is anticipated that the amount of work required</p>	Gerry Doherty – Chief Executive / Gary Chase – Director of Finance / Andros Loizou – Senior Project Manager / Shaun Gillam – Senior Project Manager	To be determined	N/A

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 31 JULY 2010
		will exceed this allocation. If necessary, further additional days will be utilised to accommodate this.			
Contingency	10	<p>To be allocated to any new developments or new / emerging risk areas during the course of the year.</p> <p>Potential areas of coverage may arise in respect of the management of Granville New Homes.</p> <p>In the event that no areas are identified as requiring further coverage, the days will be used to offset any additional contract audit work undertaken on major works projects, in excess of the planned days above.</p>	N/A	To be determined	N/A
<b>Consultation, Communication, Reporting and Follow-Up</b>	12	To cover attendance by Internal Audit management at Audit & Finance Sub-Committee meetings and the production of progress reports for these. In addition, to cover managements' non-audit specific liaison and communication with officers during the course of the year, for example ongoing liaison regarding any necessary revisions to the Plan and communication of key issues arising from completed internal	N/A	Throughout the year	In Progress.



AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 31 JULY 2010
		audit work. In addition, completion of follow-up work on all recommendations raised and agreed as part of the 2008/09 BHP Internal Audit Plan, where the same audits are not being undertaken again as part of the 2009/10 Plan. Also, to follow-up on any further actions raised as part of the 2008/09 follow-up work as being necessary to fully implement recommendations from 2007/08 internal audits.			
<b>TOTAL</b>	<b>135</b>				

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	<p style="text-align: center;"><b>Audit Committee</b> 29<sup>th</sup> September 2010</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
For Action	Wards Affected: ALL
<b>Report Title:     2010 Treasury Annual Report</b>	

## 1. SUMMARY

- 1.1 This report attaches the 2010 Treasury Annual Report that was approved by Full Council on 13<sup>th</sup> September, and updates members on recent treasury activity.

## 2. RECOMMENDATIONS

- 2.1 Members are asked to note and comment on the 2010 Treasury Annual Report and recent treasury activity.

## 3. DETAIL

- 3.1 I attach the 2010 Treasury Annual Report that was approved by Full Council on 13<sup>th</sup> September 2010.
- 3.2 The Annual Report includes a market update to July 2010 (paragraph 3.25). Recent treasury activity has involved borrowing and lending for short periods as cash flow allows. It had been hoped that the Lending List might be expanded to include overseas banks, but the Greek banking crisis in spring 2010 increased volatility and prevented further action. Following the removal of its credit rating on assimilation into Santander, Alliance & Leicester has been removed from the Lending List.
- 3.3 Although Brent has borrowed a further £20m for ten years from the Public Works Loan Board since April 2010 (to fund capital expenditure), forecasts that interest rates will remain low for some years mean that further borrowing will be minimal and balances reduced.

## 4. FINANCIAL IMPLICATIONS

These are covered in the report.

## **5 DIVERSITY IMPLICATIONS**

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

## **6 STAFFING IMPLICATIONS**

None

## **7 LEGAL IMPLICATIONS**

There are no legal implications arising from the report.

## **8 BACKGROUND**

Annual Treasury Strategy – Report to Full Council (and the Audit Committee) as part of the Budget Report – March 2009.

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, on 020 8937 1472/74 at Brent Town Hall.

**DUNCAN McLEOD**  
Director of Finance and  
Corporate Resources

**MARTIN SPRIGGS**  
Head of Exchequer and Investment



**Full Council**  
**13<sup>th</sup> September 2010**

**Report from the Director of Finance and  
Corporate Resources**

For Action

Wards Affected:  
ALL

**Report Title: The Treasury Management Annual Report  
2009/10**

**1. SUMMARY**

The purpose of this report is to provide information to members on borrowing and investment activity, and performance compared to prudential indicators during 2009/10. It also sets out revised requirements in the 2009 Treasury Management Code of Practice. The Code requires that the Treasury Management Annual Report should be agreed by Full Council.

**2. RECOMMENDATIONS**

Full Council is asked to:

- 2.1 Adopt the 2009 Treasury Management Code of Practice (paras 3.3 – 3.5)
- 2.2 Approve the Treasury Management Annual Report (section 3); and Annual Investment Strategy Report (section 4)
- 2.3 Note the outturn for prudential indicators (section 5)
- 2.4 Note the updated position in 2010/11 (para.3.25).

**3. TREASURY MANAGEMENT ANNUAL REPORT**

- 3.1 Full Council adopted the 2002 CIPFA Code of Practice on Treasury Management in Local Authorities in September 2002. The Code stipulates that the Chief Financial Officer should set out in advance to Full Council the treasury strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year. The report will also go to the Audit Committee. This section of the report details:-

- a) The economic background for 2009/10 (paras 3.6 to 3.7)
- b) The agreed treasury strategy (para 3.8)
- c) Borrowing activity during 2009/10 (paras 3.9 to 3.12)
- d) Lending activity during 2009/10 (paras 3.13 to 3.21)
- e) Overall interest paid and received (para 3.22)
- f) Developments since the year end (paras 3.23 – 3.25 )

- 3.2 Treasury management in this context is defined as 'the management of the local authority's cash flows, its banking, money market (mainly short term

borrowing and lending) and capital market (long term borrowing) transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.’ This means that the pursuit of additional returns must be placed within the framework of the prudent protection of the council’s cash balances and a rigorous assessment of risk.

## **2009 REVISED TREASURY MANAGEMENT CODE OF PRACTICE**

3.3 CIPFA issued a revised Code of Practice in December 2009 to improve procedures in the light of the Icelandic banking crisis. This report is the first opportunity for the Full Council to approve the Code. The revised Code follows previous Codes that have been adopted by the Council. Public sector organisations are required to adopt the following four clauses as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances:-

- a) This organisation will create and maintain, as the cornerstones for effective treasury management:
  - a treasury management policy statement (TMPS) stating the policies and objectives of its treasury management activities
  - suitable treasury management practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and the TMPs will follow the recommendations contained in Sections 6 and 7 of the Code.

- b) The full council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
  - c) This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Director of Finance. The Director will act in accordance with the organisation’s policy statement and TMPs and CIPFA’s Standard of Professional Practice on Treasury Management.
  - d) This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 3.4 CIPFA also recommends that an organisation’s treasury management policy statement adopts the following forms of words to define the policies and objectives of its treasury management activities:-

- 1 Treasury management is 'the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
  - 2 Brent Council regards the successful identification, monitoring and control of risk to be the prime criterion by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the authority.
  - 3 Brent Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 3.5 The detailed treasury management practices set out in the Code also seek to address some of the perceived shortcomings in treasury management in local government, as follows:-
- a) Improved reporting arrangements. It is proposed that there should be a mid-year review, and regular monitoring reports on treasury management activities and risks. Additional reporting will be supported by training for members to assist them in the scrutiny of activities. The Audit Committee already receives regular reports on treasury management, and a mid-year report will be presented in the autumn.
  - b) Where credit ratings are used, authorities should have regard to the ratings issued by all three main agencies, and make their decisions on the basis of the lowest rating. Ratings should be kept under regular review and 'ratings watch' notices acted upon. Other information sources should also be used. The Brent Lending List consists of very high quality UK financial institutions. The new treasury Adviser, Arlingclose, undertakes its own credit research as well as supplying data from the credit agencies.
  - c) Use of external service providers, such as advisers, should be subject to regular review and the terms of appointment should be clear. Brent has recently reviewed its adviser and appointed Arlingclose.

#### **ECONOMIC AND MARKET BACKGROUND DURING 2009/10**

- 3.6 The world economy began the financial year in recession, though the Chinese and Indian economies continued to grow rapidly. UK GDP shrank by 4.9% in 2009, USA by 2.4%, Euro area 4.0% and World by 0.8%. Although the UK did not return to growth until Q4 2009, the USA and Europe emerged from recession earlier. However, as the year progressed any growth remained slow as banks were unable / unwilling to lend and borrowers were unwilling to increase existing debts. In both UK and USA, quantitative easing (governments buying back debt and increasing the money supply) supported activity and reduced longer term interest rates. Inflation initially fell sharply (RPI fell to -1.6%) but rose towards the end of the year as VAT returned to 17.5%, energy prices recovered and the long term effects of the 2008 fall in

the value of sterling (around 25%) increased prices (RPI +5.3% at year end). However, bank rate remained at 0.5% as monetary policy sought to encourage economic activity and assumed that inflation would fall to reflect low economic activity. Overnight interest rates remained very low, at 0.25% - 0.4%. Fiscal policy has also been very loose, with the government running a large payments deficit. Although the UK returned to growth in Q4 2009, it appears that recovery will be slow.

- 3.7 As indicated in Table 1, very long-term (50 year) interest rates were fairly stable, with a trough in early autumn. Shorter periods have risen from the extreme levels following the bank collapses in 2008, but have remained relatively low reflecting bank rate, quantitative easing and poor economic prospects. The interest rate yield (return) curve remained 'normal', with rates rising up to around 15 year duration, then almost stable through to 50 years..

**Table 1 – PWLB Interest rates during 2009/10**

	<b>1<sup>st</sup> April 2009 %</b>	<b>30 June %</b>	<b>30 Sept. %</b>	<b>31 March 2010 %</b>
10 year	3.36	3.68	3.80	4.19
25 year	4.28	4.47	4.19	4.47
50 year	4.57	4.48	4.25	4.70

#### **STRATEGY AGREED FOR 2009/10**

- 3.8 On the basis of advice and research from Butlers (then our treasury adviser), Capital Economics and managers, it was anticipated that bank rate would fall to 1% or less, and that long term rates would fall under the pressures from declining economic activity and quantitative easing. The Treasury Management Strategy emphasised security – a reduced lending list until credit conditions improved, and lending for short periods. Whereas previously Brent has maintained borrowing at the Capital Financing Requirement – defined as the difference between the authority's total liabilities in respect of capital expenditure financed by borrowing and the provision that has been made to meet those liabilities in the revenue accounts - it was agreed that the strategy would be flexible and recognise that short term rates may remain low for a considerable period. It was envisaged that less borrowing would also reduce the level of deposits with banks and other borrowers. Finally, it was agreed that officers would look for opportunities to restructure debt, but that low rates may make this uneconomic.

#### **BORROWING ACTIVITY DURING 2009/10**

- 3.9 The split of the council's treasury portfolio between fixed interest and variable loans and investments, as at 31 March 2010, is set out in Table 2.



**Table 2 – Treasury portfolio at 31<sup>st</sup> March 2010 – loans and investments**

	<b>31.03.09 Actual £m</b>	<b>31.03.2010</b>	
		<b>Planned £m</b>	<b>Actual £m</b>
Fixed rate loans – PWLB	512.0	574.5	522.0
Variable rate loans – PWLB	-	-	-
Variable rate loans – Market	85.5	85.5	85.5
Short-term loans – Market	69.5	-	52.0
<b>Total Debt</b>	<b>667.0</b>	<b>660.0</b>	<b>659.5</b>
<b>INVESTMENTS</b>	<b>97.2</b>	<b>74.0</b>	<b>69.0</b>
<b>NET DEBT</b>	<b>569.8</b>	<b>586.0</b>	<b>590.5</b>

- 3.10 The average rate of interest payable by Brent Council on its loans has fallen from 5.09% in 2007/08, to 4.87% in 2008/09, and to 4.6% in 2009/10. A debt restructuring was undertaken in March 2009, repaying £64.8m of PWLB loans and taking advantage of cheaper short term debt. In 2009/10 Brent Council did not undertake any debt restructuring, but took two new PWLB £10m loans at 4.2% (50 years) and 3.55% (10 years) respectively.
- 3.11 The PWLB has revised its policy on the calculation of premia / discounts for the early repayment of debt. The PWLB now issues rate notices twice a day, and has marginally reduced the premia payable / discounts receivable for early repayment. This may help with debt restructuring.
- 3.12 The duration and average interest rate, of loans in the treasury portfolio at 31<sup>st</sup> March 2010 is set out in Table 3.

**Table 3 – Treasury portfolio at 31<sup>st</sup> March 2010 – duration/interest rates**

<b>Maturing Within</b>	<b>£m</b> <b>31.03.09</b> <b>31.03.10</b>		<b>Share of</b> <b>total debt</b> <b>%</b>	<b>Average</b> <b>Interest</b> <b>Rate</b> <b>2009/10</b> <b>%</b>
1 Year	79.5	52.0	7.9	0.45
1 – 2 Years	-	-	-	-
2 – 3 years	-	-	-	-
3 – 4 years	-	-	-	-
4 – 5 years	-	-	-	-
5 – 6 years	-	-	-	-
6 – 10 Years	-	10.0	1.5	3.55
10 – 15 Years	5.0	5.0	0.7	8.88
Over 15 Years	497.0	507.0	76.9	4.94
Variable – PWLB	-	-	-	-
Variable – Market	<u>85.5</u>	<u>85.5</u>	<u>13.0</u>	<u>4.58</u>
<b>TOTAL</b>	<b><u>667.0</u></b>	<b><u>659.5</u></b>	<b><u>100.0</u></b>	<b><u>4.60</u></b>

#### **LENDING ACTIVITY DURING 2009/10**

- 3.13 The council's investments averaged £86m during 2009/10 (£126m during 2008/09) and earned £2.2m in interest. Returns were assisted by the portfolio of long term deposits (deposited in 2007 and 2008 for up to three years), a number of which continued to generate returns in excess of 5% per annum when overnight rates had fallen to 0.25%. The amount invested varied from day to day depending on cash-flow and the Council's borrowing activity. Responsibility for investing funds was split between the in-house team, which manages approximately 75% of the investments and an external house managing approximately 25% of the investments.
- 3.14 Investments by the in-house team were made primarily with the intentions of achieving security and liquidity, and were all placed with call accounts (for money market funds) or for periods up to one month. A total of £396m was lent during 2009/10 (£624m 2008/09). Rates achieved ranged between 0.25% and 0.5%, with the average rate being 2.54% (2008/09 5.25%). Loans were made to high quality counterparties included on the Treasury Lending list. Appendix 1 lists the deposits outstanding at 31<sup>st</sup> March 2010.
- 3.15 The financial tsunami following the bankruptcy of Lehman brothers forced a number of banks into administration in the autumn of 2008, and the collapse of the main Icelandic banks (7<sup>th</sup> October 2008). Brent Council has two deposits outstanding with Icelandic banks, as follows:-

Heritable      £10m 5.85%      Lent 15.08.08      Due back 14.11.08

Glitnir                      £5m    5.85%                      Lent 15.09.08                      Due back 12.12.08

- 3.16 The Council continues to work with the Local Government Association and other authorities to recover the loans. All other deposits have been repaid on time. The most recent advice from CIPFA, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) states that authorities are likely to be treated as preferred creditors to Glitnir. It was hoped that Brent would recover both deposit and interest during 2009/10. However, the Winding Up Board for Glitnir has proposed that local authority deposits be treated as ordinary creditors (only likely to recover around 30% of their losses), meaning that legal action will continue – our legal advisers, Bevan Brittan, believe that the deposit will be recovered. The administrators for Heritable have repaid £3.5m in 2009/10, a further £633,000 in July 2010, and state that creditors should receive 80% / 85% of deposit plus interest to October 2008, by instalments to 2012.
- 3.17 Regular reports have been made to the Audit Committee during 2009/10 on loans outstanding, the House of Commons Select Committee Report on loans to Icelandic Banks and revised treasury procedures.
- 3.18 External cash managers were initially appointed in 1998 to manage two portfolios with the aim of achieving an improved return at an acceptable level of risk. Aberdeen Asset Management has managed a portfolio throughout the period. The value of the Aberdeen's portfolio was £23.3m as at 31<sup>st</sup> March 2010 (£22.8m 2009). Actual performance for 2009/10 (2008/09 in brackets), and the three and five years to 2009/10 are set out in Table 4.

**Table 4 - Performance of Aberdeen Asset Management and the In-House team against benchmark**

	<b>Aberdeen %</b>		<b>Brent in-house %</b>	<b>7 Day LIBID Benchmark %</b>
<b>2009/10</b>	1.9 (7.0)		2.8 (5.25)	0.4 (3.8)
<b>Three Years</b>	4.9		4.4	3.3
<b>Five Years</b>	4.8		4.6	3.8

- 3.19 Aberdeen outperformed the benchmark in 2009/10 by using longer dated certificates of deposit of up to twelve months duration with financial institutions on the Brent lending list.
- 3.20 The in-house team did not have access to the same wider range of lending instruments as the managers (gilts or CDs), but was able to add value by using money market funds (pooled funds managed by city finance houses) and benefiting from previous long term deposits. The Brent strategy had previously identified that core balances of £60m would not be needed for immediate cash flow purposes, so that £60m could be lent for periods up to three years. The 2009 debt repayment has reduced the core balance.

- 3.21 The three and five year records indicate that Aberdeen has achieved their out-performance target (+0.5% per annum). Aberdeen is among the best managers over all periods (there are around ten in the market).

#### **TOTAL INTEREST PAID AND RECEIVED**

- 3.22 Total interest paid and received in 2009/10 is shown in Table 5. The reduced interest paid on external debt reflects the restructuring in March 2009 and short term borrowing at lower rates. The reduced interest received on deposits reflects lower market rates and lower cash balances.

**Table 5 – Overall interest paid and received in 2009/10**

	<b>Budget £m</b>	<b>Actual £m</b>
Interest paid on external debt	33.2	29.8
Interest received on deposits	3.0	2.2
Debt management expenses	0.3	0.3

By way of comparison, interest received on deposits was £6.2m in 2007/08 (budget £3m) and £7.0m in 2008/09 (budget £3.5m).

#### **OTHER DEVELOPMENTS**

- 3.23 Following a review, the treasury adviser Butlers was replaced by Arlingclose in March 2010. It was felt that Arlingclose were very strong in the area of credit management and risk – the house spotted the Icelandic and other banking problems very early, and they have different ideas from the norm on the composition of a lending list. The team is very experienced, and it is expected that the house will give Brent a more individual service.
- 3.24 In response to concerns raised about scrutiny of treasury management, a training seminar for members was held in May 2009. The seminar covered such topics as the regulatory framework, sources of advice, lending and borrowing policies, debt restructuring and reporting, and was attended by around 20 members. It is planned that a second seminar will be held in autumn 2010.

#### **DEVELOPMENTS SINCE THE END OF THE YEAR**

- 3.25 Although the UK financial markets have been fairly calm since the end of the financial year, European, share and foreign exchange markets have been turbulent in response to concerns about credit worthiness and debt. Short term interest rates remain very low, and long term rates have fallen in response to 'flight to safety' concerns and the growing belief that economic recovery will be very slow and monetary conditions loose. If financial stability continues to improve, it is expected that a revised Brent Lending List - that has previously been scrutinised by the Audit Committee – will be implemented so that lending recommences to high quality overseas banks,

but only if security concerns are met. The list of loans outstanding as at 30<sup>th</sup> June 2010 is attached as Appendix 2.

#### **4 ANNUAL INVESTMENT STRATEGY**

- 4.1 Regulations issued under the 2003 Local Government Act require that councils agree an Annual Investment Strategy (AIS) before the beginning of each year, setting out how investments will be prudently managed with close attention to security and liquidity. The AIS for 2009/10 was agreed by Full Council in March 2009. The AIS sets out the security of investments used by the authority analysed between Specified (offering high security and liquidity, with a maturity of no more than one year) and Non-Specified (entailing more risk or complexity, such as gilts, certificates of deposit or commercial paper) investments. The AIS also sets out the maximum duration of deposits.
- 4.2 To discourage the use of investments that may be considered speculative, the acquisition of share or loan capital in any body corporate (such as a company) is defined as capital expenditure. On this basis, the Council does not invest treasury balances in shares, corporate bonds or floating rate notes issued by companies, though there is authority to invest through pooled schemes which are not considered capital expenditure.
- 4.3 Treasury activity has complied with the AIS in 2009/10. The approach has been to lend for short periods to high quality counterparties, reducing risk. As loans have matured, receipts have been used to minimise borrowing.

#### **5. PRUDENTIAL INDICATORS – 2009/10 OUTTURN**

- 5.1 The introduction of the new prudential system of borrowing in the 2003 Local Government Act (LGA) gave new opportunities for councils to assess their requirements for capital spending, and not have them restricted by nationally set approvals to borrow money (credit approvals), as previously. The new system also brought new responsibilities on councils to ensure that:
  - a) capital expenditure plans are affordable;
  - b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
  - c) treasury management decisions are taken in accordance with good professional practice.
- 5.2 Under regulations issued under the 2003 LGA councils are required to follow the Prudential Code issued by CIPFA which sets out how councils ensure responsible use of new freedoms. The Code details indicators that councils are required to set before the beginning of each year, to monitor during the year, and to report on at the end of each year.
- 5.3 The outturn for prudential indicators measuring affordability is set out in Table 6. General Fund and HRA capital financing charges as a proportion of total budget were lower than the original estimates principally because the average borrowing rate fell to 4.60%. There was no unsupported borrowing in 2009/10.

**Table 6 – Prudential indicators measuring affordability**

	<b>2009/10 (estimates )</b>	<b>2009/10 (actual)</b>
Capital financing charges as a proportion of net revenue stream:		
- General Fund	8.69%	8.41%
- HRA	34.71%	32.59%
Impact of unsupported borrowing on:		
- Council tax at Band D	£2.10	£0.00
- Weekly rent	-	-

- 5.4 The outturn for prudential Indicators for capital spending is set out in Table 7. Movements within the capital programme, including slippage between years and resources becoming available during the year, were reported in the Performance and Finance Outturn report to the Executive in July 2010. Capital spending is funded from a variety of resources, including government grants, capital receipts, revenue contributions, Section 106 contributions and borrowing. This means that movements in capital spending are not directly reflected in movements in the Capital Financing Requirement (CFR), which principally reflects borrowing requirements. Total borrowing in 2009/10 was lower than anticipated which meant a reduction in the overall CFR. However, due to the introduction of International Financial Reporting Standards it has become necessary to include two Private Finance Initiative schemes on the council's balance sheet, adding approximately £30m to the CFR.

**Table 7 – Prudential indicators measuring capital spending and CFR**

	<b>2009/10 Estimates £m</b>	<b>2009/10 Actual £m</b>
Planned capital spending:		
- General Fund	106.211	79.666
- HRA	28.352	24.671
- Total	134.573	104.337
Estimated capital financing requirement for <sup>1</sup> :		
- General Fund	304.558	333.057
- HRA	330.693	330.241
- Total	635.251	663.298

<sup>1</sup> The Capital Financing Requirement estimates in this table are at 31<sup>st</sup> March of each year.

- 5.5 The Council also sets prudential indicators for external debt which are shown in Table 8. This is to ensure that the council's overall borrowing is kept within prudent limits. The authorised limit for external borrowing is set flexibly above the CFR to allow for opportunities to restructure debt or borrow early when interest rates are favourable. The Operational Boundary sets out the expected maximum borrowing during the year, again allowing for cash flow, interest rate opportunities and possible restructuring. In 2009/10 the council did not undertake any debt restructuring, and did not exceed the Operational Boundary for external debt.

**Table 8 – Prudential indicators for external debt**

Indicator	Limit	Status
Authorised limit for external debt	£810m	Met
Operational boundary for external debt	£710m	Met
Net borrowing	Below CFR	Met

- 5.6 The prudential indicators for treasury management, which are included in Table 9 below, were all met. These are set to ensure that interest rate exposures are managed to avoid financial difficulties if interest rates rise sharply. Although borrowing at variable rates can be advantageous if rates are falling, a sharp rise can cause budget difficulties, and force the Council to fix rates at an inopportune time. Again, managing loan durations ensures a variety of maturity dates to avoid all re-financing happening when rates may be high. Finally, the upper limit on investments of more than one year allows flexibility to lend for longer periods if interest rates make this advantageous, particularly by external managers investing in gilts, but also ensures that a minimum level of balances is available for cash flow purposes. Deposits have been short term, and long term loans have been run down during the year.

**Table 9 – Prudential indicators for treasury management**

Indicator	Limit	Outcome
<b>Treasury Management Code</b>		Adopted
<b>Exposure to interest rate changes</b>		
- fixed rate upper limit	100%	100%
- variable rate upper limit	40%	8%
<b>Maturity of fixed interest loans</b>		
Under 12 months		
- upper limit	40%	8%
- lower limit	0%	2%
12 months – 24 months		
- upper limit	20%	0%
- lower limit	0%	0%
24 months – 5 years		
- upper limit	20%	0%
- lower limit	0%	0%
5 years – 10 years		
- upper limit	60%	2%
- lower limit	0%	0%
Above 10 years		
- upper limit	100%	96%
- lower limit	30%	92%
<b>Upper limit on investments of more than one year</b>	<b>£60m</b>	<b>£40m</b>

## **6. MINIMUM REVENUE PROVISION**

- 6.1 The Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the requirement that councils set aside a minimum of 4% of their General Fund capital financing requirement to repay principal on debt, regardless of the length of life of the asset that was being financed.
- 6.2 Revised regulations which amend this requirement were issued in 2008.<sup>2</sup> Under the new regulations councils are required to set an amount of Minimum Revenue Provision which is 'prudent'. The definition of what counts as 'prudent' is set out in statutory guidance which has been issued by the Secretary of State for Communities and Local Government and which authorities are required to 'have regard' to.
- 6.3 Under the guidance councils are required to prepare an annual statement of their policy on making Minimum Revenue Provision to Full Council. The purpose of this is to give Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements. This Policy

<sup>2</sup> Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 – SI 2008/404



Statement was submitted and approved by the Full Council at its meeting in March 2010 within section 10 of the Budget Setting report.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 Financial implications are set out within the report.

## **8. DIVERSITY IMPLICATIONS**

- 8.1 The proposals in this report have been subject to screening and officers believe that there are no diversities implications arising from it.

## **9. LEGAL IMPLICATIONS**

- 9.1 Guidance has been issued under s21 (IA) of the Local Government Act 2003 (the '2003 Act') on how to determine the level of prudent provision. Authorities are required by Section 21 (B) to have regard to this guidance.
- 9.2 Under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) authorities have significant discretion in determining their Minimum Revenue Provision but, as a safeguard, the guidance issued under the 2003 Act recommends the formulation of a plan or strategy which should be considered by the whole Council. This mirrors the existing requirement to report to Council on the prudential borrowing limit and investment policy. The Local Authorities (Functions and Responsibilities) (England) (Amendment) Regulations 2000 have been amended to reflect that the formulation of such a plan or strategy should not be the sole responsibility of the Executive.

## **10. BACKGROUND INFORMATION**

1. Loans Register.
2. Logotech Loans Management System.
3. Butler quarterly and special reports on treasury management.
4. Aberdeen Asset Management quarterly reports.
5. 2009/10 Budget and Council Tax report – March 2009
6. Reports to Audit Committee on The Audit Commission report on Icelandic Banks (16<sup>th</sup> June 2009), the House of Commons Select Committee on local authority investment in Icelandic Banks (24<sup>th</sup> September 2009), Treasury Management (17<sup>th</sup> December 2009) and The Treasury Strategy for 2010/11.

## **11. CONTACT OFFICERS**

1. Martin Spriggs, Head of Exchequer and Investments – 020 8937 1472
  2. Paul May, Capital Accountant – 020 8937 1568
- DUNCAN McLEOD**

**Director of  
Finance and  
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Resources**

**APPENDIX 1**

**Brent treasury lending list**

- 1 The current loans outstanding **as at 31st March 2010** are:

<b>Name</b>	<b>Amount £m</b>	<b>Yield %</b>	<b>Lending Date</b>	<b>Maturity Date</b>
Global Treas. Fund (RBS)	3.8	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Cheshire BS	5.0	Var.	07.05.08	07/05/10
Heritable bank	6.5	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Newcastle BS	5.0	6.05	28.04.08	28/04/10
Derbyshire BS	5.0	6.4	16.06.08	16/06/10
Dunfermline BS	5.0	5.9	01.07.08	01/07/10
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	<u>5.0</u>	7.0	22.09.08	22/09/11
<b>Total</b>	<b><u>45.5</u></b>			

Brent has also invested £23.3m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen is as follows:-

Abbey National CD	2.3	0.49	10.05.10
Lloyds TSB CD	1.25	0.66	03.08.10
Barclays Bank CD	2.7	0.67	04.08.10
RBOS CD	2.0	0.67	04.08.10
Clydesdale Bank CD	2.5	0.96	24.11.10
Barclays Bank CD	1.5	0.96	25.11.10
Nationwide BS CD	2.2	0.97	29.11.10
Lloyds TSB CD	2.0	0.99	06.12.10
Lloyds TSB CD	1.0	1.13	03.02.11
RBOS CD	2.25	1.14	07.02.11
Nationwide BS CD	2.2	1.25	28.03.11
Santander Deposit account	1.1		
Accrued interest	<u>0.3</u>		
	<b><u>23.3</u></b>		

## APPENDIX 2

### Brent treasury lending list

2 The current loans outstanding as at 30<sup>th</sup> June 2010 are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	4.1	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Heritable bank	6.5	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Dunfermline BS	5.0	5.9	01.07.08	01/07/10
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	5.0	7.0	22.09.08	22/09/11
Nationwide BS	10.0	0.46	03.06.10	05.07.10
Santander UK	10.0	0.81	03.06.10	01.07.10
Barclays	<u>4.0</u>	0.40	24.06.10	26.07.10
<b>Total</b>	<b><u>54.8</u></b>			

Brent has also invested £23.4m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen is as follows:-

Lloyds TSB CD	1.25	0.66	03.08.10
Barclays Bank CD	2.7	0.67	04.08.10
RBOS CD	2.0	0.67	04.08.10
Clydesdale Bank CD	2.5	0.96	24.11.10
Barclays Bank CD	1.5	0.96	25.11.10
Nationwide BS CD	2.2	0.97	29.11.10
Lloyds TSB CD	2.0	0.99	06.12.10
Lloyds TSB CD	1.0	1.13	03.02.11
RBOS CD	2.25	1.14	07.02.11
Nationwide BS CD	2.2	1.25	28.03.11
Santander Deposit account	3.5		
Accrued interest	<u>0.3</u>		
	<b><u>23.4</u></b>		

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