



## Audit Committee

**Tuesday, 22 February 2011 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:** Joe Kwateng, Democratic Services Officer  
(020) 8937 1354 ; [joe.kwateng@brent.gov.uk](mailto:joe.kwateng@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
<b>1 Declarations of personal and prejudicial interests</b>	
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 Deputations</b>	
<b>3 Minutes of the previous meeting</b>	1 - 4
<b>4 Matters arising</b>	
<b>5 Audit Commission progress report</b>	5 - 18
The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.	
<b>6 Audit Commission, 2009/10 final accounts memo</b>	19 - 52
This reports details findings from the 2009/10 financial statements audit that were not significant enough to include in our Annual Governance Report (AGR), or were not reported in detail to the Audit Committee. The reported matters would still benefit from action by the Council. This would improve the quality of next year's accounts.	
<b>7 Audit Commission, 2009/10 certification of claims and returns - annual report</b>	53 - 68
Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises	

the findings from the certification of 2009/10 claims.

**8 Audit Commission, 2010/11 Audit opinion plan** 69 - 92

This plan sets out the audit work that to be undertaken for the audit of financial statements and the value for money conclusion 2010/11.

**9 Audit Commission, 2010/11 Pension Fund opinion plan** 93 - 110

This plan sets out the audit work to be undertaken for the audit of financial statements and the value for money conclusion 2010/11.

**10 2011/12 Treasury Management Strategy and Annual Investment Strategy** 111 - 134

This report details the Treasury Management Strategy and Annual Investment Strategy for 2011/12.

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

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

**11 Internal Audit - third progress report 2010/11** 135 - 154

This report sets out a summary of the work of Internal Audit for the period 1<sup>st</sup> April 2010 to 31 January 2011. The attached report provides further details of this together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since November 2010.

**Ward affected:**                      **Contact Officer:** Simon Lane, Audit and Investigations

All Wards;                              Tel: 020 8937 1260 simon.lane@brent.gov.uk

**12 Audit needs assessment and Internal Audit plan 2011/12** 155 - 160

This report sets out the approach being taken to undertake a formal Audit Needs Assessment ('ANA') across the Council, the output of which will be used to formulate the Annual Internal Audit Plan ('the Plan') for the 2011/12 financial year.

**Ward affected:**                      **Contact Officer:** Simon Lane, Audit and  
Investigations  
All Wards;                              Tel: 020 8937 1260 [simon.lane@brent.gov.uk](mailto:simon.lane@brent.gov.uk)

### 13 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.

### 14 Date of next meeting

The date of the next meeting of the Audit Committee will be agreed by the Annual meeting of the Full Council in May.



- 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 Thursday, 16 December 2010 at 7.30 pm

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

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 29 September 2010 be approved as an accurate record of the meeting.

4. **Matters arising**

The Director of Finance and Corporate Services agreed to look into progress on the briefing note on adult social care and housing concerns raised at the previous meeting.

5. **Annual Audit Letter 2009/10**

Members had before them a revised report from the Director of Finance and Corporate Services appended to which were a revised version of the Audit Commission's Annual Audit letter, dated 7 December, and also progress report from the Audit Commission, circulated after the publication of the original agenda.

Andrea White (Audit Commission) in introducing the Audit Letter, reminded members that the issues summarised in the Audit Letter had been reported previously, asked that members now look to the future and drew attention to the key messages outlined in the report. The committee noted that an unqualified opinion had been issued on the council's financial statements with one material and one minor error. An unqualified opinion had also been issued on the Pension Fund's financial statements. On foundation schools, attention was drawn to recommendations to improve the council's risk management, internal control and performance management with particular reference to problems at Copland Community School. For this, and other cases where additional audit work had had

to be carried out additional audit fees had been levied. On current and future challenges, Ms White considered that the council was well placed to deliver savings and improve efficiency through the One Council programme. A high level review had been conducted and robust arrangements were in place with expertise brought in where thought necessary. However, she advised the council to bear in mind the need to retain capacity to deliver quality services. Ms White referred to the government's decision to cancel the Building Schools for the Future programme and the resultant loss of capital investment in the borough's schools pointing out that the council would now have to consider how it would deal with the current pressure on school places. Finally, Ms White made reference to the challenge for all local authorities to implement the International Financial Reporting Standard in 2010/11 and was pleased to report that the council was making good progress. It would however need to maintain focus to ensure timely implementation.

On her specific recommendations, Ms White highlighted the need to improve year end financial reporting, strengthen risk management and control and performance arrangements in respect of foundation schools, embed good procurement practice and risk management arrangements. The committee were pleased to hear that the 2007/08 and 200/09 audits were closed in September 2010, together with the 2009/10 audit, outstanding issues relating to the council's involvement in London Authorities Mutual Limited and Copland Community School having been resolved.

In discussion, members noted the intention to introduce an earlier audit review, moving eventually to monthly mini close-downs in line with good practice. In response to a question on the potential future risks, Andrea White stated that staff reductions, both front and back office, could affect services. Also internal controls and performance management would need to be monitored to ensure the council continued to perform at its chosen level. Any risks associated with changes need to be clearly established. Clive Heaphy (Director of Finance and Corporate Services advised that members would have the opportunity to consider a report reviewing the risk framework. On the health inequalities review and the involvement of the voluntary sector, Ms White contributed that the council would be better placed to increase outcomes with good working arrangements with partners such as the voluntary sector. This has been fed back to key stakeholders. A report would be submitted in due course on the implications of the transfer of responsibility for public health with associated funding. Members raised questions on progress being made to maximise cost savings through procurement. The Director responded that new expertise had been brought in to review contracts and was expected to make significant contributions to the council's improvement and efficiency programme. The Procurement Board met on a regular basis and collaborative work was continuing with the West London Alliance. Members agreed that the current number of supplies in the region of 12,000 needed to be reduced.

The Director summarised the current and future challenges, in particular the savings target of approximately £90m to £95m over four years, the financial settlement and the need to ensure the organisation stays on track while achieving savings. He hoped monies would be forthcoming to make up for the loss of BSF funding however the council would ensure that there were sufficient school places. Basic Need Safety Valve funding would be spent.

The committee thanked Andrea White for her contribution.

Paul Viljoen (Audit Commission) introduced the progress report and made reference to the latest briefing paper on implementing International Financial Reporting Standards (IFRS) issued in October 2010, a new clarified framework that would apply the audit of the 2010/11 accounts and would introduce changes covering related party transactions, accounting estimates, group accounts and reporting deficiencies in internal controls. Discussions would be taking place with the Director of Finance and Corporate Services.

The committee discussed the reasons for the new arrangements and heard the Director's view that the International Financial Reporting Standard, once in place, would assist their implementation.

RESOLVED:

- (i) that the Annual Audit Letter and the council's response be noted.
- (ii) that the Audit Commission's progress report be noted.

#### **6. 2010/11 mid year Treasury Management report**

The Director of Finance and Corporate Services introduced the report that detailed treasury management activity for 2010/11. He referred to the economic forecasts for the year which he felt had been relative accurate. On the return of funds deposited with Icelandic banks, the committee heard that the legal case was still going through the courts in Reykjavik. The Director reported that Public Works Loan Board (PWLB), from which the council had borrowed a further £20m for ten years, had increased its interest rates. It was noted that in October 2010 the council had replaced a £50m PWLB debt with a short term borrowed debt to bring about significant savings to the General Fund in 2010/11 and 2011/12.

The committee noted that the new Civic Centre would require major capital expenditure and that it was the intention to borrow mostly on a fixed rate basis.

RESOLVED:

that the report be noted.

#### **7. Second Internal Audit progress report 2010/11**

The committee received a report from the Director of Finance and Corporate Services which summarised out the work of Internal Audit for the period from 1 April 2010 to 30 November 2010. Simon Lane (Head of Internal Audit) drew attention to the progress of the audits conducted and the associated assurance ratings. He drew attention to the limited assurance for Kilburn Square TMO within Brent Housing Partnership, and also for Copland School following a repeat audit. It was noted that management responses to draft reports were awaited on a number of audits.

Members referred to the recent announcement by the Secretary of State for Education to end the current FMSiS (Financial Management Standard in Schools) with immediate effect and develop to a simpler standard as a replacement and raised questions on the likely impact. Simon Lane responded that some of the

standards within FMSiS would continue to be tested as part of the audit process. The committee noted the central government's intention to encourage schools to become academies outside of local authority control and the likely impact on the Dedicated Schools Grant and Pupil Premium.

RESOLVED:

that the progress made in achieving the 2010/11 Internal Audit Plan be noted.

**8. Regulation of Investigatory Powers Act 2000 - review of the use of surveillance and CHIS**

The report from the Director of Finance and Corporate Services advised of the use of covert intelligence and covert human intelligence sources (CHIS) for 2009/10 for the period April 2009 to November 2010. Simon Lane (Head of Audit and Investigations) advised that a review of RIPA legislation had resulted in new codes of practice which came into force in April 2010. Members were now required to provide oversight of the use of surveillance. Since the introduction of the act local authorities have been required to follow certain procedures and to give consideration prior to surveillance being authorised. Simon Lane drew attention to the summary of the operations carried out since 2003.

The committee noted that it was possible for an element of money obtained from confiscation orders to be given to the council. A report with a more detailed breakdown of cases would be submitted in the future.

RESOLVED:

that the report be noted.

**9. Any other urgent business**

The committee noted that progress report on Copland School would be presented in due course.

The Chair brought to members' attention the intention to appoint an independent chair for the Audit Committee to work with and support members. An advertisement for the position would be placed.

The meeting closed at 8.40 pm

E AL-EBADI  
Chair



# Progress report

**February 2011**

**Brent London Borough**

**Audit 2010/11**

**Audit Committee 22 February 2011**

**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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# Summary

## 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.

## Audit Progress

- we have agreed our Opinion Plan for the Council and its Pension Fund with officers for 2010/11. We have included extracts of our standard letters to the Director of Finance and Chair of the Audit Committee to address auditing standards on fraud, internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This is included on the agenda for the Audit Committee;
  - we have agreed a detailed timetable for the audit with the Authority. Our interim audit commenced on the 4 January. We have included key findings as at 21 January for the Audit Committee; and
  - The Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation had been delayed. This consultation was subsequently launched on 10 December 2010 and the closing date is 7 January 2011. This proposes a rebate of 3.5 per cent to the 2010/11 fee and introduces a scale fee of £439,200 for 2011/12 (2009/10 audit fee: £497,500).
- 2 Appendix 1 shows details of all outputs planned in respect of 2010/11.

## International Financial Reporting Standards

3 There have been no new International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

4 We have completed a survey for the Audit Commission assessing the IFRS progress at the Authority. We have assessed the Authority as red (green, amber or red). Red is assessed as 'Not on track' or 'Significant issues'. This assessment is based on:

- Deliverables not complete by target dates; and
- Constraints on capacity of relevant staff.

5 We have summarised progress to date against the project plan:

Item	Due date	Complete	Revised due date	Comments
Restatement of opening balances	31 March 2010	Part	-	This review is underway. Our findings to date are largely positive, however review school leases and component accounting by the Council remains outstanding.
Review of PFI/IFRIC12 for 2009/10 accounts	30 June 2010	Yes	-	We have audited this as part of our opinion work for 2009/10. No material amendments identified, however some recommendations made.
Restatement of 2009/10 balances including: <ul style="list-style-type: none"> <li>■ Accounting policies; and</li> <li>■ Draft financial statements.</li> </ul>	31 December 2010	Part	February 2011	The Council are currently working on the restatement of the 2009/10 balances.  We received a copy of the Council's draft IFRS accounting policies in February 2011 but have yet to perform our review of these.

**6** We have documented progress by the Council against key areas for consideration against IFRS. We are in the process of reviewing this. This is summarised in the table below:

Item	Completed by Council	Comments
Non-current assets	Part	A draft policy on component accounting was produced by the Council on 27 January 2011. The Council is due to commence its property revaluation work shortly.
Leases	Part	A review of internal leases has been completed by the Council. The Council is currently obtaining information regarding school's leases to enable the Council to perform its review of these items.
Employee benefits	Yes	This has been completed.
Segmental reporting	Yes	We received a copy of the Council's draft segmental reporting paper in February 2011 but have yet to perform our review of this.
Government grants	Yes	This has been completed.
Group accounts	Part	The Council are currently working on their review of group accounting matters. This has yet to be finalised as the Council are awaiting the finalisation of guidance in this area.
Other	Part	We have seen progress on areas such as cash and cash equivalents, however other key areas remain outstanding such as disclosures.

**7** At present, we appreciate the Council is dealing with challenges and conflicting priorities, not least:

- revisiting short and medium term budgets to address reduced funding in the future;
- changes to its key financial systems; and
- reductions in finance staff numbers.

**8** Based on good work performed, introducing International Financial Reporting Interpretation Committee 12: Service Concessions (FRIC12) and capability of Council officers involved, we believe the Authority can successfully implement IFRS. However, failure to take action to prioritise the remaining work required increases the risk of not meeting statutory deadlines and additional fees required to perform our audit.

## Interim audit

9 We have detailed key findings to date from our interim audit as at 21 January 2011. We commenced our onsite visit on the 4 January 2011.

10 We are advanced in our work covering the following areas:

- General ledger;
- Accounts receivable;
- Accounts payable;
- cash and bank;
- Treasury management;
- Council tax;
- NNDR;
- Housing rents; and
- Housing benefits.

11 We have identified the following matters, and will include these in our interim report:

- Control account reconciliations:
  - the Council's arrangements have undergone a significant change as part of the move to a new financial system in September 2010. This has involved the migration of data from a number of previous systems. As part of the transition the Council is moving to more centralised arrangements for maintaining some of its key control account reconciliations. The current status of these is set out below:

Area	Status
Accounts receivable	Migration of old bank accounts completed and reconciliation in progress for period September to December 2010.
Accounts payable	Reconciliation completed up to November 2010.
Bank (including loans and deposits)	Reconciliation in progress for period September to December 2010 (currently 84% complete).
Council tax	Reconciliation in progress for period September to December 2010.
NNDR	Reconciliations in progress for period September to December 2010.

- Accounts payable:
  - new supplier accounts are set up without managers checking details to supporting documentation;
  - during the transitional period following the move to the new financial system purchase orders have been raised retrospectively after invoices have been received;
  - the Council has entered into a pilot arrangement with an outsourced scanning bureau as a transitional arrangement until the Council is ready to finalise its specification requirements and enter into a formal contractual arrangement. The Council is monitoring the performance of the scanning bureau and is sample checking a number of transactions. However, the Council should consider more formalised arrangements for obtaining assurance over the controls and processes with the bureau;
  - preliminary payment run reports with evidence of senior officers review are not always retained by the Council; and
  - BACS payments of more than £50k have been approved by one authorised officer instead of two authorised officers as required by the Council's procedures.

**12** As a result of the matters identified, there is an increased possibility of errors taking place and a limit on our ability to obtain controls assurance. Controls testing is more efficient than substantive testing. Therefore, we will assess the work we will need to perform in the summer once our interim work is complete. In addition, we will need to consider how we can gain assurance over the controls and processes within the outsourced planning bureau. If additional work is required, we will discuss the estimated additional fee with the Director of Finance.

**13** As at 21 January 2011, we still needed to perform our systems work covering fixed assets, payroll and pension fund systems.



## Looking Ahead

**14** We have previously advised you of the proposal of the Secretary of State for Communities and Local Government (CLG) to abolish the Audit Commission.

**15** The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation. Ministers have said that the Commission's Audit Practice is to be transferred to the private sector.

**16** This represents an exciting opportunity for us. We are already exploring a number of potential options, including mutualisation as an employee owned partnership. We anticipate the proposed move to the private sector, independent of Government, will provide us with a groundbreaking opportunity to continue to thrive and develop our practice.

**17** Throughout this process we will remain committed to providing excellent service to our clients. Further to this, CLG have assured Foundation Trusts that any contracts awarded to the Audit Practice will be honoured in full. In an open letter providing assurance to Foundation Trusts, CLG states: "the Government would like to reassure those foundation trusts that have or are considering contracts with the Audit Commission's Audit Practice that those contracts will be honoured in full."

**18** Please contact Andrea White, your District Auditor, if you would like a copy of this letter.

**19** To assist Ministers as they consider the options for transferring the practice to the private sector, we are developing plans to form a mutual business. Neil Childs, Director of Audit, says: "Mutualisation would enable us to continue to offer you a distinctive alternative to the big firms. We will continue to provide you with unrivalled expertise in public audit and advisory services, focused on the challenges you face, at competitive fees".

**20** We expect Ministers to make a decision in principle over the exact form of the transfer of the audit practice to the private sector in Spring of 2011.

## Recent Audit Commission announcements and publications

**21** 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](#)

## Auditing the accounts 2009/10

**22** The Audit Commission's report, [Auditing the Accounts 2009/10](#), summarises the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.

**23** The report covers:

- auditors' work on the 2009/10 financial statements;
- the results of auditors' 2009/10 local value for money work;
- the public interest reports and statutory recommendations issued by auditors since December 2009; and
- the key financial management and financial reporting challenges for 2010/11.

**24** The report congratulates seven councils, one police authority and three local government bodies for early publication. There is great interest in financial transparency by public bodies at the moment and we believe that early publication of audited accounts is an important contribution to openness and accountability.

**25** The Commission reports that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils (2 per cent of the total) and 11 local government bodies (12 per cent). The report also names two councils where the auditor gave a qualified opinion.

**26** All police authorities and fire and rescue authorities published their audited accounts by 31 October and none received a qualified audit opinion.

## Consultation on proposed work programme and fees

**27** The Audit Commission is consulting on its proposed work programme and scales of fees for 2011/12. The announcement made on 13 August 2010 proposing the Commission's abolition implies (although it has still to be confirmed) that 2011/12 may be the Commission's final year in its current form. If so, this will be the last time it will publish a work programme and set scales of audit fees.

**28** The Commission proposes to carry through its existing, pre-August, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. These involve fee rebates for 2010/11 and lower fees for 2011/12.

**29** The [proposed work programme and scales of fees for local government, housing and community safety \(PDF, 298kb\)](#) consultation document proposes significant reductions in audit fees of between 5 and 20 per cent, reflecting both the new approach to local VFM audit work and a reduction in the ongoing audit costs associated with the introduction of IFRS. The [proposed scale of fees for each audited local government, housing and community safety body](#) are also available. In relation to 2010/11 fees, the Commission will rebate:

- 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities; and
- 3.5 per cent for single tier and county councils.

## Audit Commission Annual Quality Report

**30** In October 2010 the Audit Commission published the Annual Quality Report for its own Audit Practice.

**31** The report – which can be found on the Audit Commission’s website - summarises the results of the quality review of the work of the Commission’s own staff as auditors to NHS and local government bodies. It also includes the views of the Audit Inspection Unit that carried out an independent review of our work.

**32** The publication of this report is one of a range of measures aimed at demonstrating our commitment to delivering high quality audit work. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of our Audit Practice. The report also compares our Audit Practice with the major accountancy firms and the other audit agencies.

**33** The headline message was that the quality of the audit practice’s work continues to meet professional standards and there has been a measurable improvement in quality compared with the prior year.

## Appendix 1 Key deliverables 2010/11

Table 1: **Progress on key deliverables for 2010/11**

<b>Product</b>	<b>Timing</b>	<b>Current position</b>
<b>Planning</b>		
Audit plan	January 2010 - March 2010	Plan presented to Audit Committee in June 2010
<b>Opinion</b>		
Work on financial statements	December 2010 - June 2011	Commenced 4 January 2011
Financial statements: ■ opinion; ■ Annual Governance Report; ■ opinion memorandum	July 2011 - September 2011	
<b>Value for money</b>		
Project management review		
Value for money conclusion	June 2011 - September 2011	
<b>Reporting</b>		
Annual Audit and Inspection Letter	December 2011	

## Appendix 2 Letter to the Chair of the Audit Committee

### **Audit of London Borough of Brent and its Pension funds Financial Statements - Compliance with International Auditing Standards**

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behavior; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) What those charged with governance consider to be the most high risk posts, from a fraud and corruption perspective, within the organisation, and how the risks relating to those posts are identified, assessed and managed.

4) Whether those charged with governance:

- are satisfied that internal controls, including segregation of duties, exist and work effectively;
- have knowledge of any actual, suspected or alleged frauds; and
- are aware of any related party relationships or transactions that could give rise to instances of fraud.

5) How you gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter (or e-mail), by 30 April 2011 will suffice. Please contact me [a-white@audit-commission.gov.uk](mailto:a-white@audit-commission.gov.uk) or Paul Viljoen [p-viljoen@audit-commission.gov.uk](mailto:p-viljoen@audit-commission.gov.uk) if you wish to discuss anything in relation to this request.

## Appendix 3 Letter to the Director of Finance

### **Audit of London Borough of Brent and its Pension funds Financial Statements - Compliance with International Auditing Standards**

In order to comply with a number of International Standards on Auditing I am required to obtain an understanding of the following:

- 1) Management processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) Management's awareness of any actual or alleged instances of fraud.
- 3) How management gain assurance that all relevant laws and regulations have been complied with.
- 4) Whether there is any potential litigation or claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as the Director of Finance will suffice.

Please contact me at [p-viljoen@audit-commission.gov.uk](mailto:p-viljoen@audit-commission.gov.uk) if you wish to discuss anything in relation to this request.

# Final Accounts Memo

**London Borough of Brent and Brent Pension Fund**

**Audit 2009/10**

**December 2010**



**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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# Summary report

## Introduction

1 This reports details findings from the 2009/10 financial statements audit that were not significant enough to include in our Annual Governance Report (AGR), or were not reported in detail to the Audit Committee. The reported matters would still benefit from action by the Council. This would improve the quality of next year's accounts.

2 The report is prepared for management and is in addition to our earlier AGR. Separate sections of the report are used to detail the findings from the London Borough of Brent and Brent Pension Fund audits.

## Background

3 The Accounts and Audit Regulations 2003 require Local Authorities to prepare a statement of accounts in accordance with proper practices (CIPFA Statement of Recommended Practice (SoRP)).

4 We are required by the Code of Audit Practice to give an opinion on whether the Council's accounts give a true and fair view of:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of the Pension Fund for the year and the amount of disposition of the fund's assets and liabilities at the year end, other than liabilities to pay pensions and other benefits after the end of the scheme year.

5 Our London Borough of Brent opinion covers the following statements:

- Income and Expenditure Account;
- Balance Sheet;
- Cash Flow Statement;
- Housing Revenue Account;
- Collection Fund;
- Group Accounts; and
- Supporting notes to the statements.

6 Our Brent Pension Fund opinion covers the following statements:

- Pension Fund Statement; and
- Supporting notes to the statements.

7 In addition we issue an opinion on the Whole of Government Accounts consolidation pack.

## Main audit findings

8 The most significant findings were reported to those charged with governance in our AGR. These are detailed in appendix 1.

## Next steps

**9** In conducting this audit, we identified opportunities for the Council to improve its internal controls and financial reporting. The action plan, included as appendix 2 to this report, sets out recommendations to support improvement.

**10** We would like to take this opportunity to thank the Council officers for the assistance provided over the course of the audit.

# Detailed report - London Borough of Brent

## Introduction

11 This section covers:

- internal control weaknesses; and
- matters arising from our post statement audit work.

## Internal control weaknesses

12 The following section details the findings and recommendations from our interim audit. Although these issues were not deemed of sufficient significance to report in detail to the Audit Committee they do represent opportunities for further streamlining of the audit of the accounts. This is because robust and well evidenced controls allow us to gain assurance over the financial statements at an early stage, thereby reducing testing during the year-end audit.

13 We perform a walkthrough of one transaction in order to assess whether documented processes and controls are in place. We noted the following weaknesses:

### Adult Social Care

- no formal system in place for raising purchase orders;
- monthly control account reconciliations were not prepared for accounts payable or accounts receivable;
- no monthly reconciliation between Abacus and Oracle, this had to be done retrospectively post year end;

### Children & Families

- no central record kept of queries raised with People Centre regarding payroll data. This could lead to issues being unresolved or not followed up;
- bank reconciliation shows large reconciling balances between cashbook and bank account, which raises concerns over the timeliness of matching receipts and payments in the bank and cashbook;

### Housing

- monthly debtor and creditor control account reconciliations had not been occurring for April to November;

### Housing Benefits

- internal quality control checks over change in circumstances indicated a high number of errors in recording the effective date of change which could lead to error in calculating and classifying overpayment periods;

### Council Tax

- no clear record of council tax refund authorisation was available. Capita do not receive confirmation of authorisation, the only notification is

where authorisation is not given. This can lead to Capita processing refunds before the Council has reviewed them.

## Recommendation

- R1** Operate formal procedures for raising all purchase orders.
- R2** Strengthen disciplines concerning significant system reconciliations. In particular, reconciliations should:
- be prepared monthly;
  - be evidenced as prepared and reviewed; and
  - clearly evidence how variances are followed up.
- R3** Maintain a log of queries raised regarding payroll data and ensure that these are resolved as part of the routine payroll production process.
- R4** Clear long standing reconciling items and uncleared cheques on main Children & Families bank reconciliation.
- R5** Review procedures to ensure that the correct effective date is used to calculate Housing Benefit claims following notification of changes in circumstances.
- R6** Confirmation should be given to Capita that Council Tax refunds have been reviewed and authorised, before taking place.
- 

## Post statement audit

**14** The section below details the findings and recommendations from our final accounts audit.

### Housing

- 15** The audit for the Housing service area was slow to complete due to:
- difficulties in agreeing service unit workbooks to the general ledger; and
  - obtaining breakdowns of our sample selected balances.
- 16** Whilst Housing has been consolidated into 4 service units we found the workbooks were made up of the combined balance of a number of general ledgers. Although this is acceptable there were no working papers to trace the relevant codes on the general ledger to entries in the workbooks. This had to be manually re-performed increasing the time spent on the audit.
- 17** Further work was required by the Council on agreeing the trial balance. The original query was raised on 30th July and was not resolved until a revised trial balance for Housing Central Finance General Fund service unit was provided to the audit team on 27th September.

**18** Over this period there were numerous versions provided before the final response was received. This led to an unadjusted error of £192k being reported in the AGR. Due to the timing of the matter being resolved, there was insufficient time to fully test the revised trial balance. As such, the auditing standards require the Audit Committee Chair to formally agree with management's basis for not amending.

**19** Of the debtor balances tested one item for £1,499k could not be supported by a debtors analysis as at 31st March 2010. The balance could only be analysed at the current period and no record had been taken to support the balance as at year end. Alternative audit techniques had to be used to gain assurance over the balance, however in future we would expect the Council to retain evidence of all balances as at 31st March.

**20** Delays were also experienced in turning around the audit queries. It took significant time to receive supporting documentation for selected samples, with problems including:

- tracking down where the supporting documentation was held; and
- being provided with insufficient evidence, therefore having to request further evidence.

## Recommendation

**R7** Ensure the Council retains clear evidence to support all balances. Transactions should be fully supported and evidence filed appropriately to allow officers to reproduce support promptly in response to audit queries.

**R8** Provide a full audit trail between the general ledger to the accounts. This should be sufficiently detailed to include:

- details and evidence of any adjustments;
- identification of all relevant codes making up balances, and references in order to trace values between the general ledger and accounts;
- record of date the general ledger report was run;
- record of officer who prepared report; and
- evidence of internal quality review.

**R9** Review debtor accounts for any balances which are supported by live systems. Ensure reports are run at year end to support account entries as at 31st March.

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## Children & Families

**21** The level of supporting documentation held by the Council to support school balances was found to be insufficient to clear our initial audit queries. The Schools Finance Team retained the individual schools returns, but

there was no backing documentation to support returns or evidence of review of returns.

**22** Whilst we understand the Council may not hold all records for schools transactions, we would expect there to be more evidence of review of the schools returns especially over large items of expenditure. In particular external schools payroll balance of £91,541k is a significant proportion of Children & Families expenditure and it would be useful for copies of the relevant payroll reports to be held by the Schools Finance Team, and consideration of internal and external audit assurance, where applicable.

**23** The evidence for external schools payrolls was also a factor in our review of the Employees' Remuneration Note, which included School Staff remuneration. For external schools, this is based on schools return listing numbers of staff against each remuneration band. There is no indication of review of these returns to ensure they agree to schools payroll and records are complete.

**24** We also experienced significant difficulty in obtaining bank confirmation for schools bank balances. Requests for confirmation were sent to all banks per the listing provided by the Schools Finance Team in May 2010. However, significant delays resulted from the process of banks obtaining permission from schools to release the details to ourselves. Many schools did not respond or agree for the banks to notify the audit team in accordance with bank processes.

**25** The above matters led to significant delays in receiving sufficient evidence to support transactions. This was due to the response time of schools in providing information and the level of audit involvement required to resolve this.

**26** Review of the main Children and Families bank reconciliation shows long standing reconciling items and uncleared cheques dating back to April 2008. These items came to a net total of £898k. We would advise long standing items are cleared on a regular basis.

## Recommendation

**R10** Implement a review of school returns to gain assurance over financial information provided. Evidence of reviews taking place should be clearly documented and can include:

- detailed review for a sample of all returns on a 3 year rolling basis;
- obtain evidence to support all significant balances;
- evidenced, detailed review of income and expenditure versus budget;
- comparative and ratio based analysis of outturn; and
- use of internal and external audit assurance.

**R11** Obtain all external schools payroll reports to agree:

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## Recommendation

- schools payroll expenditure; and
- employees' Remuneration Note.

**R12** Consider formally informing all schools of the requirement to allow banks to disclose information on schools bank accounts to the Council's auditor. Carry out an internal review to confirm all schools have acknowledged this information can be released.

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## Adult Social Care

**27** Variances were identified between the trial balance and the annual accounts. Adjustments had been made between the ledger and accounts but there was no clear audit trail, explanation of what the adjustments were or why they had been made. There was a significant delay in providing an adequate explanation. The initial responses failed to resolve the matter.

**28** The trial balance failed to accurately analyse debtor and creditor balances between specific categories. There are specific ledger codes for internal, external and government debtors and creditors, which did not agree to the balances disclosed in the accounts. We asked the Council to reconcile the ledger balances back to the accounts. This took several attempts as there was no clear audit trail.

**29** The calculation of the bad debt provision was based on a debtor figure which was later revised in the final Adult Social Care workbook submission. Therefore the provision had not been based on the debtor balance disclosed in the accounts. The difference was immaterial, but highlights a weakness in the processes around calculating the bad debt provision.

**30** The main problems arose due to changes to staffing in the Adult Social Care Finance Team. This indicated there was limited understanding of the processes involved in preparing the accounts and the remaining staff were unable to explain how entries to the accounts had been derived. The Council should ensure there are sufficient procedure notes and standard practices to minimise impact of staff changes.

## Recommendation

**R13** Ensure authorisation and review of transactions to strengthen the processes over coding transactions to the ledger. Where there are separate codes to identify internal, external and government balances the review should ensure these have been correctly use and follow up any miscoded items.

**R14** Ensure bad debt provision at year end is based on current level of debtors.

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## Recommendation

**R15** Establish formal policy and procedures for accounts closedown and material systems.

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### Collection Fund

**31** There was a £12,700k material error in the treatment of Council Tax write-offs which was detailed in the AGR. Per the SORP, write-offs should be written off to expenditure. We found the Council had written these balances off by incorrectly debiting income.

**32** A further minor difference was identified between the Collection Fund Account and the National Non Domestic Rates claim. This had nil impact on amount payable to the national pool, but may have been avoided with a cross referencing check between the Collection Fund Account and NNDR claim.

## Recommendation

**R16** Ensure treatment of Collection Fund write-offs are in line with SORP guidance.

**R17** Review Collection Fund Account to final or latest version of NNDR claim.

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### Housing Revenue Account

**33** Service charge had been incorrectly allocated to Dwelling Rent income. This led to an amendment which correctly allocated the charges to Charges for Services and Facilities income.

## Recommendation

**R18** Review entries on the HRA ensuring balances have been correctly allocated in accordance with the SORP.

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### Tangible Fixed Assets

**34** In 2009/10 the Council obtained a property valuation of one of its offices, Brent House, from an external property valuer. Our audit procedures require us to satisfy ourselves that work carried out by experts to support any accounting entries is acceptable. This includes any work performed by property valuers. We were not made aware of Council's intentions to use

this external property valuer during the planning stage of our audit. This led to delays in obtaining the necessary assurance that we required to satisfy ourselves that we could rely on the work performed.

**35** No other significant matters were noted in the audit of tangible fixed assets. There was a good audit trail for capital items including depreciation and revaluation entries, and supporting documentation was of appropriate standard.

## Recommendation

**R19** Provide a full list of all external valuers used, relevant to the audited year, for our confirmation and review procedures.

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## Leases

**36** An amendment was made to the accounts for the analysis of future payments the Council is committed to make. This error arose as the wrong balances had been selected from the Council's working papers to enter into the accounts.

**37** For our testing, the Council provided a list of all leases detailing the start and end dates of each lease. We found this working paper included leases, which had expired before 2009/10. Although testing found these leases were still in operation, leases had not been formally renewed and documentation to support ongoing leases was of varying standards.

**38** We recommend the Council ensures their working papers are fully up to date and, where leases are currently under renewal or are not supported by a renewed agreement, they have identified these leases and can fully support their continued disclosure as operating leases.

## Recommendation

**R20** Review listing of all leases to ensure start and end dates agree to supporting documentation.

**R21** Leases disclosed in the accounts should be evidenced with supporting documentation to show:

- Start date and term of lease;
- Annual lease payment;
- Name of lessee and lessor.

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## PFI

**39** The Council is party to four PFI arrangements and two service concession arrangements. Overall the assessment and calculation of the arrangements and the disclosures in the accounts were overall of a good standard. However testing resulted in a number of amendments as detailed in appendix 1.

**40** Going forward it is important for the Council to perform regular reviews of these arrangements and any new arrangements to ensure:

- PFI assets are re-valued in line with the Council's revaluation policy. It is good practice to revalue assets as soon as they become operational;
- Where PFI assets are being delivered on a phased basis ensure assets are accounted for as they are completed;
- Lifecycle costs have actually occurred and have been correctly accounted for.
- The Council is aware of any contract variations which may impact on the models.

## Recommendation

**R22** Carry out regular reviews of PFI and service concessions to identify any new arrangements or changes to existing conditions. In particular review:

- Basis for lifecycle costs;
- Impact of any contract variations;
- Revaluation of assets especially new schemes;
- Schemes where assets are delivered on a phased basis to ensure these are accounted for in the correct periods.

## Loans & Investments

**41** We are required to obtain external confirmations for all loans and investments as at 31 March. All confirmations were received prior to the accounts deadline, but there were delays in some responses from third parties.

**42** At present we receive a listing of all Council outstanding loans and investments post year end, detailing the organisation name and transaction amount. To aid this process it would be useful to receive this information promptly post year end and for the contact details to include a contact name and number.

**43** From experience, organisations often do not respond until they are verbally contacted. Having full contact details in advance will save both the Council and the Audit Team from searching for this information during the audit, and speed up response times.

**44** Our review also covered the current position on Icelandic investments and the Council's response to CLG guidance on potential impairment. The Council should ensure they evidence their treatment, where this is based on advice from the CLG it should include evidence that the Council have considered all the relevant information in coming to any decision and can support their treatment.

## Recommendation

**R23** Provide a full listing of loans and investments outstanding at year end. This should be provided to the audit team by 30th April and detail:

- name of organisation;
- amount of transaction; and
- contact name, address and telephone number.

**R24** Evidence treatment of Icelandic investments and Council's review of guidance and legal advice to support disclosure.

---

## Provisions & Contingent Liabilities

**45** There were delays in receiving suitable information to support provisions made in accordance with Financial Reporting Standard 12: Provisions, Contingent Liabilities and Contingent Assets. This indicated that some of the finance officers within service units had not checked and reviewed the working papers and evidence to support the provisions and disclosures in the accounts.

**46** A contingent liability was settled in between 31 March 2010 and the conclusion of our audit. This was for costs and compensation to the claimant based on rights over land. We agreed with the Council to remove the liability and account for the costs as a provision at 31 March 2010.

**47** The Council have a large contingent liability disclosed for HR matters. There was no working paper to evidence this when requested. This was subsequently prepared. However the Council need to ensure robust working papers are prepared regularly, to assess the item against the criteria of FRS12: Provisions, Contingent Liabilities and Contingent Assets (FRS12).

**48** We raised a number of recommendations to increase disclosure of contingent liabilities. The disclosure requirements of FRS12 require the following:

- an estimate of its financial effect, measured in accordance with [paragraphs 36-55](#) of FRS12;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

**49** The Councils' legal department provide summary of all ongoing cases, which may be contingent liabilities or provisions. These have been included in the financial statements, where appropriate. However, we identified a lack of review by finance staff as certain items included probabilities of loss or settlement outside of those stipulated in FRS12 for the relevant liability classification. However, the Council were able to provide further evidence to support the initial classification for the items we queried.

**50** As part of assessing completeness of liabilities, we review the legal costs incurred by the Council. These were not readily available and not reviewed by the legal department.

### Recommendation

**R25** Review all provisions at year end to supporting documentation.

**R26** Review all provisions and contingent liabilities to the relevant recognition criteria in FRS12.

**R27** Ensure disclosures for provisions and contingent liabilities meet requirements of FRS12.

**R28** Ensure that legal review of potential liabilities is jointly considered by legal and finance officers in determining accounting treatment.

**R29** Prepare and review all legal costs of the Council for possible undisclosed legal matters.

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### FRS17 Retirement Benefits

**51** An amendment was required on the accounts for Past Service Costs, which had not been included in the Net Cost of Services on the I&E Account.

### Recommendation

**R30** Ensure that the accounts for all retirement benefit amounts are included in the accounts in accordance with FRS17 and the SORP.

---

### Financial Instruments

**52** The draft statements did not include the required disclosures in the Financial Instruments Note in line with the SORP guidance. The Council had trouble identifying the entries to be included in the accounts, a matter that was unresolved until the 30 September 2010.

**53** Extracts from the SORP and examples from other Councils were provided to aid in the completion of this note. This is a clear area for improvement and should be prepared early to ensure the Council meet the SORP requirements, or flag up problems early.

## Recommendation

**R31** Ensure compliance with the SORP when preparing the Financial Instruments Note.

---

## Other Matters

**54** Our initial review identified a number of text disclosure errors, the main type of errors have been detailed below:

- cross referencing and consistency issues;
- disclosure of PPAs through using "restated" heading for relevant notes; and
- full compliance with all disclosure requirements.

**55** On the I&E Account interest paid had been incorrectly included in Central Services expenditure. This should be shown below Net Cost of Services and allocated to Interest Paid.

**56** The Employees' Remuneration Note had omitted five officers whose remuneration and redundancy payments were over £50,000. The Council had run a listing of all staff receiving over £40,000 and compared with redundancy payments in the year. As redundancy payments were up to and including £30,000 the payroll report parameters should have been set up to cover all possible remuneration and redundancy combinations up to £50,000. We would recommend an additional report for total remuneration of staff with a redundancy payment of £10,000 and over.

**57** Our audit includes the Brent Group Accounts. This means that the timing of the BHP audit impacts the Brent audit. It is therefore important that the BHP audit is signed off before 30th September, and this date could be brought forward to aid the delivery of the Council's own audit deadline.

**58** There were no significant matters arising from the Environment and Finance and Corporate Resources audits. As a result, it could be useful for the Council to benchmark good practices across different service units to help improve the overall performance of the Council.

## Recommendation

**R32** Ensure a full review of the annual accounts is completed to ensure compliance with disclosure requirements of the LG SORP.

**R33** Ensure Employees' Remuneration Note has been compiled taking

---

## Recommendation

into account all relevant payroll and redundancy data. This should include coverage of any officers receiving redundancy payments to confirm total remuneration amount.

**R34** Consider bringing forward Brent Housing Partnership audit signoff to allow sufficient time to review findings as part of the main London Borough of Brent audit.

**R35** Share best practice arrangements for finance throughout the Council.

---

## Accounts preparation and working papers

**59** From experience we are aware that the devolved structure of the Council means that the quality of the information provided is variable in terms of depth of detail and adequacy of the audit trail and this is an area that needs to be improved in future years.

**60** There were significant difficulties experienced during the audit in obtaining accurate audit trails and, delays in receiving supporting documentation at some service areas, notably Housing and Adult Social Care. A clear understanding of where entries in the service unit workbooks had come from was lacking at some service units, or could not be supported.

**61** With the move to a more centralised finance unit we recommend the Council consider preparing a single central working paper file (either manually, or ideally electronically). This would help to:

- aid the Council's review procedures prior to approval of the accounts;
- assist both the Council and the audit team if key individuals are unexpectedly unavailable; and
- improve efficiency of the audit process.

**62** Queries raised during the course of the audit were generally answered promptly, but some delays were experienced where supporting documentation was held externally, as detailed above under Housing and Children & Families findings.

## Recommendation

**R36** The Council should ensure the new centralised finance unit will be able to provide a full audit trail between the ledgers to the accounts. In particular:

- Knowledge of how balances have been derived should be shared across the finance team;
  - The reason for any adjustments between the ledger and the accounts should be evidenced clearly and authorised by senior
-

## Recommendation

officers;

**R37** Prepare a central working paper file for the accounts audit.

**R38** Respond to all audit queries within agreed timescale of 2 days.

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# Detailed report - Brent Pension Fund

## Introduction

**63** This section covers:

- internal control weaknesses identified; and
- matters arising from our post statement audit work.

## Internal control weaknesses

**64** Table 2 details the findings and recommendations from our interim audit work on the pension fund. These issues represent opportunities to improve the pension fund's control environment.

We identified the following:

- Pension contributions and benefits payable administration functions are performed by the London Pension Fund Authority (LPFA); and
- Journal forms are not approved by senior officers as required by the Council's procedures.

## Recommendation

**R39** Obtain formal assurance from the LPFA that the agreed checks have been performed on contributions and amounts paid to pensioners.

**R40** Arrange for all journals to be formally approved by officers.

---

## Post statement Audit

**65** The section below details the findings and recommendations from our pension fund final accounts audit. Some of the details were not deemed significant enough to report to the Audit Committee but they may be of use in preparing next year's accounts.

### Accounts preparation and working papers

**66** Some of the working papers and reconciliations prepared for the pension fund are detailed and complex.

**67** Queries raised during the audit were generally answered promptly, but some delays were experienced in resolving queries relating to investments for the reasons set out in the investment section below.

## Investments

**68** The in-year reconciliation of between the quarterly investment reports and the pension funds accounting records are complex. During our testing detailed discussions with officers were needed, in addition to the supporting working papers, in order to be able to confirm that the details were correctly stated. We recommend that the Council ensures that their working papers clearly set out the details of investment opening balances, closing balances, sales, purchases and changes in market value so that there is a clearer audit trail to support the figures in the accounts. These procedures should be performed regularly during the year and at the year end.

**69** In some cases we identified differences between investment values reported in reports from fund managers and the values reported by custodian. These were due to timing differences and differences in the basis used by fund managers and custodians to produce reports. We recommend that the pension fund should introduce its own procedures to ensure that the investment records reconcile and that the appropriate values are reported. These procedures should be performed regularly during the year and at the year end.

**70** The pension fund accounts include a number of unquoted investments. There are risks around the accurate valuation of these investments at the year end. In 2009/10 the value of unquoted investments in the pension fund accounts had been based on the value of the unquoted investments reported as at 31 December 2009. Management subsequently provided evidence that there had not been a material difference in value of these investments between December 2009 and March 2010. However, in future management should formally estimate changes in valuation of these estimates up to the year end date and reflect this in the financial statements.

**71** The value of investment commitments disclosed in the accounts was incorrectly stated. We recommend that a comprehensive review of all working papers and supporting records is performed as part of the year end closedown arrangements to ensure that amounts are correctly stated and are supported by a full audit trail.

### Recommendation

**R41** Produce detailed and clear quarterly investment report reconciliations for all categories of investments and ensure that these are independently reviewed by officers with a good understanding of investments.

**R42** Reconcile investment information reported by fund managers and custodians and ensure that the pension fund's accounting records reflect the appropriate investment values.

**R43** Estimate changes in market value of unquoted investments up to 31 March each year as part of preparing the financial statements.

## Recommendation

**R44** Undertake a comprehensive review of all working papers and supporting records as part of the year end closedown arrangements to ensure that items are correctly stated and supported by a full audit trail.

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### Other matters

**72** Our review identified a number of areas where the draft accounts did not meet all of the requirements of the Pension Fund Statement of Recommended Practice (PF SoRP). The main matters have been detailed below:

- the net asset statement did not include a note to explain that the fund's financial statements do not take into account of liabilities and pay pensions and other benefits after the year end;
- the net asset statement did not include appropriate cross-referencing to the actuarial certificate of technical provisions and adequacy of contributions;
- the net asset statement did not state that actuarial liabilities have been excluded from the financial statements and include appropriate cross-referencing to the place where the actuarial information is disclosed;
- the financial statements did not disclose that they have been prepared on a going concern basis;
- the financial statements do not disclose the accounting policies judged material in accounting for or reporting on the transactions and net assets of the fund;
- the financial statements did not disclose that they had been prepared in accordance with the provisions of chapter 2 of the Pensions SoRP 2007 and the justification for any departures from the PF SoRP;
- the financial statements did not explain that additional voluntary contributions were excluded from the pension fund accounts;
- the financial statements did not include all of the details required regarding the disclosure of the gross value of derivatives, e.g derivative groupings in the categories required by the PF SoRP and fair values at maximum economic exposure values; and
- the financial statements did not disclose investments in the categories required by the PF SoRP.

## Recommendation

**R45** Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.

---

# Appendix 1 Audit Findings reported to those charged with governance

We identified the following misstatements during the audit and all necessary adjustments were made.

## London Borough of Brent

Table 1:

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		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		
Dr Depreciation Cr Deferred income Cr Operating costs Cr Interest paid Cr Contingent Rent Dr SMGFB (MRP) Cr SMGFB (Depreciation) Dr Fixed assets Cr Prepayment Cr Deferred income Dr Finance Lease creditor Dr Revaluation reserve	Adjustments arising from audit of Housing and Willesden PFI schemes. These are significantly related to: <ul style="list-style-type: none"> <li>■ not accounting for phased delivery of assets related to Housing PFI; and</li> <li>■ incorrect accounting for lifecycle costs on the Willesden PFI.</li> </ul>	141      335	 36 108 156 35  141	2,697	1,797 1,383
				677	446

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
Cr Capital adjustment account					640
Cr Fixed assets Dr Prepayment Dr Finance Lease creditor Cr Capital adjustment account	Impact of amendments to PFIs detailed above on opening balances			186 2,245	189 2,242
Dr Dwelling rents Cr Income from Service charges	Income from service charges has been incorrectly allocated as Dwelling rents	2,792	2,792		
Dr Interest paid Cr Central services	Correct misallocation of interest paid on PFIs	1,908	1,908		
Dr Expenditure Cr Provision  Cr SMGFB Dr Earmarked reserve	Account for contingent liability which is now a liability at 31 March 2010 based on post balance sheet events	1,000	1,000		1,000
Dr Impairment Cr Fixed assets Dr Capital Adjustment Account Cr Statement of Movement in General Fund balances	Account for impairment on Willesden PFI property in accordance with LG SORP	647	647	647	647
Dr Central services expenditure Cr Statement of Movement in General Fund balances	Accounting for past service costs in accordance with LG SORP	460	460		
Net impact on reported deficit		1,914			

## Brent Pension Fund

Table 2:

Adjusted misstatements	Nature of adjustment	Fund account		Net asset statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Changes in market value of investments	Overstatement of investment values	783			
Cr Investments					783
Net impact on fund account		783			

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

Operate formal procedures for raising all purchase orders.

**Responsibility** Mick Bowden

**Date** 30th September 2011

**Comments** From September 2010 all PO requisitioning will be through Oracle i-procurement, enforcing a standard process. All users will be trained to ensure a common approach and understanding.

#### Recommendation 2

Strengthen disciplines concerning significant system reconciliations. In particular, reconciliations should:

- be prepared monthly;
- be evidenced as prepared and reviewed; and
- clearly evidence how variances are followed up.

**Responsibility** Mark Peart

**Date** 31st March 2011

**Comments** Monthly AP/AR reconciliations to GL will be undertaken by the Oracle service desk.

#### Recommendation 3

Maintain a log of queries raised regarding payroll data and ensure that these are resolved as part of the routine payroll production process.

**Responsibility** John Lee

**Date** 31st May 2011

**Comments** A new email and call management system is being implemented in People Centre which will meet this requirement.

#### Recommendation 4

Clear long standing reconciling items and un-cleared cheques on main Children & Families bank reconciliation.

**Responsibility** Mark Peart

**Date** 31st January 2011

**Comments** Reconcile and close bank account

#### Recommendation 5

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Review procedures to ensure that the correct effective date is used to calculate Housing Benefit claims following notification of changes in circumstances.

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<b>Responsibility</b>	David Oates
<b>Date</b>	31st March 2011
<b>Comments</b>	Review whether the current controls are the optimum method of ensuring accuracy.

#### Recommendation 6

Confirmation should be given to Capita that Council Tax refunds have been reviewed and authorised, before taking place.

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<b>Responsibility</b>	Margaret Read
<b>Date</b>	10th January 2011
<b>Comments</b>	The current process does incorporate a final check on refunds before these are processed for payment by FSC- and this is available in the form of an email. A further check is now being introduced from 10th Jan 2011, which will provide a record of the client team check of proposed refunds before Capita authorise these on Northgate. This will provide a record of those refunds that have been agreed in addition to those that have been rejected.

#### Recommendation 7

Ensure the Council retains clear evidence to support all balances. Transactions should be fully supported and evidence filed appropriately to allow officers to reproduce support promptly in response to audit queries.

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<b>Responsibility</b>	Eamonn McCarroll
<b>Date</b>	31st May 2011
<b>Comments</b>	Agreed - it is also proposed that detailed working files should be in electronic form.

#### Recommendation 8

Provide a full audit trail between the general ledger to the accounts. This should be sufficiently detailed to include:

- details and evidence of any adjustments;
  - identification of all relevant codes making up balances, and references in order to trace values between the general ledger and accounts;
  - record of date the general ledger report was run;
  - record of officer who prepared report; and
  - evidence of internal quality review.
- 

<b>Responsibility</b>	Eamonn McCarroll
<b>Date</b>	31st May 2011
<b>Comments</b>	Agreed - for 2010-11 account we also propose to prepare the final accounts directly from the detailed trial balance. While this will be more time consuming, it is considered that this will further enhance the audit



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trail.

### Recommendation 9

Review debtor accounts for any balances which are supported by live systems. Ensure reports are run at year end to support account entries as at 31st March.

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<b>Responsibility</b>	Eamonn McCarroll
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<b>Date</b>	31st May 2011
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<b>Comments</b>	Agreed - this will be done by the BP team and BHP.
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### Recommendation 10

Implement a review of school returns to gain assurance over financial information provided. Evidence of reviews taking place should be clearly documented and can include:

- detailed review for a sample of all returns on a 3 year rolling basis;
- obtain evidence to support all significant balances;
- evidenced, detailed review of income and expenditure versus budget;
- comparative and ratio based analysis of outturn; and
- use of internal and external audit assurance.

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<b>Responsibility</b>	Mustafa Salih
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<b>Date</b>	31st May 2011
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<b>Comments</b>	This will be initiated during the Autumn term.
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### Recommendation 11

Obtain all external schools payroll reports to agree:

- schools payroll expenditure; and
- employees' Remuneration Note.

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<b>Responsibility</b>	Mustafa Salih
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<b>Date</b>	31st May 2011
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<b>Comments</b>	This will be undertaken on a quarterly basis with all payroll expenditure reports from schools fully reconciled with the Employee's Remuneration note.
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### Recommendation 12

Consider formally informing all schools of the requirement to allow banks to disclose information on schools bank accounts to the Council's auditor. Carry out an internal review to confirm all schools have acknowledged this information can be released.

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<b>Responsibility</b>	Mustafa Salih
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<b>Date</b>	31st March 2011
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<b>Comments</b>	This will be initiated during the Autumn term and completed by 31st December each year.
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### Recommendation 13

Ensure authorisation and review of transactions to strengthen the processes over coding transactions to the ledger. Where there are separate codes to identify internal, external and

government balances the review should ensure these have been correctly use and follow up any miscoded items.

<b>Responsibility</b>	Eamonn McCarroll
<b>Date</b>	31st May 2011
<b>Comments</b>	Changes as part of the Finance Modernisation programme mean that some balance sheet transaction are now input by the FSC. Where these continue to be processed by the BP team, we will ensure that any entries for internal, external and government balances are separately coded.

#### Recommendation 14

Ensure bad debt provision at year end is based on current level of debtors.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	31st May 2011
<b>Comments</b>	Review current arrangements and revise calculations to take account of the auditor's requirements

#### Recommendation 15

Establish formal policy and procedures for accounts closedown and material systems.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	31st January 2011
<b>Comments</b>	New corporate arrangements will be set for 10/11. Responsibilities of all staff and timetable for key activities will be set out.

#### Recommendation 16

Ensure treatment of Collection Fund write-offs are in line with SORP guidance.

<b>Responsibility</b>	Mick Bowden
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

#### Recommendation 17

Review Collection Fund Account to final or latest version of NNDR claim.

<b>Responsibility</b>	Mick Bowden / Margaret Read
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

#### Recommendation 18

Review entries on the HRA ensuring balances have been correctly allocated in accordance with the SORP.

<b>Responsibility</b>	Eamonn McCarroll
<b>Date</b>	31st May 2011
<b>Comments</b>	Recommendation agreed

### Recommendation 19

Provide a full list of all external valuers used, relevant to the audited year, for our confirmation and review procedures.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

### Recommendation 20

Review listing of all leases to ensure start and end dates agree to supporting documentation.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

### Recommendation 21

Leases disclosed in the accounts should be evidenced with supporting documentation to show:

- Start date and term of lease;
- Annual lease payment;
- Name of lessee and lessor.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

### Recommendation 22

Carry out regular reviews of PFI and service concessions to identify any new arrangements or changes to existing conditions. In particular review:

- Basis for lifecycle costs;
- Impact of any contract variations;
- Revaluation of assets especially new schemes;
- Schemes where assets are delivered on a phased basis to ensure these are accounted for in the correct periods.

<b>Responsibility</b>	Mark Peart
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed

### Recommendation 23

Provide a full listing of loans and investments outstanding at year end. This should be provided to the audit team by 30th April and detail:

- name of organisation;
- amount of transaction; and
- contact name, address and telephone number.

<b>Responsibility</b>	Chris Thompson
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 24

Evidence treatment of Icelandic investments and Council's review of guidance and legal advice to support disclosure.

<b>Responsibility</b>	Chris Thompson
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed, will be updated.
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#### Recommendation 25

Review all provisions at year end to supporting documentation.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 26

Review all provisions and contingent liabilities to the relevant recognition criteria in FRS12.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 27

Ensure disclosures for provisions and contingent liabilities meet requirements of FRS12.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 28

Ensure that legal review of potential liabilities is jointly considered by legal and finance officers in determining accounting treatment.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 29

Prepare and review all legal costs of the Council for possible undisclosed legal matters.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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#### Recommendation 30

Ensure that the accounts for all retirement benefit amounts are included in the accounts in accordance with FRS17 and the SORP.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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### Recommendation 31

Ensure compliance with the SORP when preparing the Financial Instruments Note.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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### Recommendation 32

Ensure a full review of the annual accounts is completed to ensure compliance with disclosure requirements of the LG SORP.

<b>Responsibility</b>	Mark Peart
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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### Recommendation 33

Ensure Employees' Remuneration Note has been compiled taking into account all relevant payroll and redundancy data. This should include coverage of any officers receiving redundancy payments to confirm total remuneration amount.

<b>Responsibility</b>	Mark Peart / Andy Gray
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<b>Date</b>	30th June 2011
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<b>Comments</b>	Agreed
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### Recommendation 34

Consider bringing forward Brent Housing Partnership audit signoff to allow sufficient time to review findings as part of the main London Borough of Brent audit.

<b>Responsibility</b>	Clive Heaphy
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<b>Date</b>	31st March 2011
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<b>Comments</b>	Discuss practical implications with BHP/EM
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### Recommendation 35

Share best practice arrangements for finance throughout the Council.

<b>Responsibility</b>	Mick Bowden
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<b>Date</b>	1st April 2010
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<b>Comments</b>	Through the Finance modernisation programme and its roll out, all financial procedures have been standardised.
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### Recommendation 36

The Council should ensure the new centralised finance unit will be able to provide a full audit trail between the ledgers to the accounts. In particular:

- Knowledge of how balances have been derived should be shared across the finance team;
- The reason for any adjustments between the ledger and the accounts should be evidenced clearly and authorised by senior officers;

<b>Responsibility</b>	Mick Bowden
<b>Date</b>	30th June 2011
<b>Comments</b>	This will be completed and presented to the auditor as part of the pre-audit work/checks.

#### Recommendation 37

Prepare a central working paper file for the accounts audit.

<b>Responsibility</b>	Mick Bowden
<b>Date</b>	30th June 2011
<b>Comments</b>	The council will operate through a single Oracle company in 10/11 so no individual I&E and B/S unit returns will exist. Financial transactions will be consolidated centrally.

#### Recommendation 38

Respond to all audit queries within agreed timescale of 2 days.

<b>Responsibility</b>	Mick Bowden
<b>Date</b>	30th September 2011
<b>Comments</b>	Instruction will be issued as part of the 10/11 closure

#### Recommendation 39

Obtain formal assurance from the LPFA that the agreed checks have been performed on contributions and amounts paid to pensioners.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th April 2011
<b>Comments</b>	Assurance will be obtained at year end

#### Recommendation 40

Arrange for all journals to be formally approved by officers.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed, journals will be signed

#### Recommendation 41

Produce detailed and clear quarterly investment report reconciliations for all categories of investments and ensure that these are independently reviewed by officers with a good understanding of investments.

<b>Responsibility</b>	Martin Spriggs
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<b>Date</b>	30th June 2011
<b>Comments</b>	Reconciliations have been simplified and will be reviewed as completed

#### Recommendation 42

Reconcile investment information reported by fund managers and custodians and ensure that the pension fund's accounting records reflect the appropriate investment values.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th June 2011
<b>Comments</b>	The custodian figures are the prime ones for the Council to use. The custodian and fund manager will be requested to resolve any differences that arise.

#### Recommendation 43

Estimate changes in market value of unquoted investments up to 31 March each year as part of preparing the financial statements.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th June 2011
<b>Comments</b>	The most up to date information available to the Council will be used when compiling the accounts. Attempting to estimate changes in value for investments that are not correlated to general market valuations is highly speculative.

#### Recommendation 44

Undertake a comprehensive review of all working papers and supporting records as part of the year end closedown arrangements to ensure that items are correctly stated and supported by a full audit trail.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th June 2011
<b>Comments</b>	Improve working papers

#### Recommendation 45

Include all of the disclosures required by the Pension Fund Statement of Recommended Practice in the financial statements.

<b>Responsibility</b>	Martin Spriggs
<b>Date</b>	30th June 2011
<b>Comments</b>	Agreed with auditor in 2009/10

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# Certification of claims and returns - annual report

London Borough of Brent

Audit 2009/10



**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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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** Brent Council receives funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must demonstrate compliance with these conditions to obtain and retain funding. If the Council cannot evidence this, funding may be at risk. It is therefore important the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified 10 claims with a total value of £426 million. Of these, we carried out a limited review of 2 claims and a full review of 8 claims. (Paragraph 19 explains the difference.)

## Significant findings

**3** The Council and audit team have continued to develop the grants preparation and certification. The approach was set out in the 2008/09 grants protocol, with the aim of continuing to improve the accuracy and timeliness of grant returns.

**4** The results from certification of 2009/10 grant claims are summarised in Table 1 below. Performance has once again improved when compared to the prior year. Further details are set out in Appendix 1.

Table 1: **Summary of findings**

	2009/10 (10 claims)		2008/09 (11 claims)	
	Yes	No	Yes	No
Claims submitted by deadline	10	0	9	2
Claims amended	6	4	10	1
Claims qualified	2	8	5	6

**5** Our certification of grant claims in 2008/09 demonstrated a significant improvement from 2007/08. However, the following weaknesses were noted from our work in 2008/09:

- two claims were not submitted on time;
- some claims were presented with little supporting documentation;
- the authority had not identified new claims for certification; and
- the certification adjustments to claims were largely attributable to minor presentational or numerical errors.

**6** This year the Council:

- submitted 100% of claims by the deadline (82% in 2008/09);
- the number of claims requiring amendment reduced to 60% (from 91% in 2008/09); and
- the number of claims requiring qualification reduced to 20% (from 45% in 2008/09).

**7** There are still some areas for improvement. Often, minor errors have lead to amendments which could be avoided. It is important grants work is subject to supervision and review by the Council, capable of identifying presentational and basic numerical errors, before submission to the audit team.

**8** Working papers across most grants have reached satisfactory standards. And for some claims, the working papers are of a good standard. However, we are still experiencing problems with the working papers to support in particular the HRA Subsidy Base Data Return (HOU02). There has been a history of inadequate evidence to support this claim, resulting in qualifications for the last 3 years.

**9** The Council has built a strong foundation to maintain continuous improvement in grant claim submissions. Since 2008/09, the quality of arrangements has led to significant progress for ensuring claims are completed correctly and issues are dealt with in a timely manner. The Council should strive to continue this good work.

**10** Detailed findings on specific claims are detailed under the 'Findings' section of this report. This gives a review of all claims based on a

department review, including the reasons for amendments and qualifications where applicable.

**11** Appendix 2 includes an action plan summarising our recommendations.

## **Certification fees**

**12** The current estimated grant fee for 2009/10 stands at £78,000. This is lower than the 2008/09 fee of £85,956.

**13** This has resulted from continued improvement in 2009/10 by the Council and efficiencies within the certification process for 2009/10. In particular:

- One claim, was below £500,000 threshold, resulting in limited testing performed;
- One claim, where sufficient reliance could be placed in control environment, resulting in limited testing performed;
- LSC funding of further education in LA institutions (EDU23) no longer required auditor certification in 2009/10;
- Change in testing approach to Housing and Council Tax Benefits (BEN01), leading to more efficient sampling and testing approach in the current year.

## **Actions**

**14** Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

# Background

**15** The Council claims millions for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

**16** I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Brent Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**17** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**18** The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not require certification arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means the certification fees may be reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of certification work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**19** As stated in paragraph 17, for claims and returns over £500,000 we assess whether reliance can be placed in the control environment for preparing claims. Our control environment review assesses:

- arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions;
- control arrangements, including internal financial control and internal audit;
- quality of authority's supporting working papers;
- expertise and relevant knowledge of preparers, including the adequacy of supervision and review; and
- cumulative knowledge of the problems associated with compilation of a claim or return including previous points arising, any known concerns expressed by the grant-paying body, or any actions/decisions by the grant-paying body on previous qualification letters.

**20** Where the funding received is significant, for example Housing Benefits, National Non Domestic Rates, Teacher's Pensions, the size and complexity of the claims is a key consideration in determining the level of testing required.

**21** In 2009/10 we were able to rely on the control environment for 1 claim, Disabled Facilities Grant (HOU21). For this claim we had sufficient assurance to undertake only limited testing. The strong control environment was evidenced by:

- low value claim, small number of transactions and non-complex;
- good performance in previous years (no history of amendment or qualification);
- claim prepared by the same officer for several years, indicating experience and knowledge of claim terms and conditions;
- no significant or unexpected variances identified in year-on-year or predictive analytical review;
- Substantial assurance given by Internal Audit Internal Financial Controls audit of service area.

**22** Limited testing was performed on Single Programme (RG31) (Youth Offer Scheme) as the total claim value over the project's 2-year project life was below the £500,000 threshold level.

**23** Where the size and complexity of a claim meets set limits our ability to undertake limited testing (Part A only), the control environment will be used to determine the level of testing (sample sizes) undertaken. A strong control environment can lead to reduced substantive testing.



## Recommendation

**R1** The Certification Instructions provided to the Council include the Control Environment and Testing Assessment used to assess the claim control environment. The Council should review this document and consider how the claim is prepared, and how the control environment may be improved. Improvements can lead to:

- Limited testing (Part A only); or
- Reduced substantive testing.

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## Specific claims

### Housing Benefit and Council Tax Subsidy (BEN01)

**24** Our work on the Housing Benefit and Council Tax Subsidy claim for 2009/10 was completed before the DWP deadline of 30 November. The continued effective management of the claim and the positive relationship between the Authority and the audit team has aided the delivery of this work.

**25** Our initial testing of 80 cases identified three errors across four cells on the claim. In accordance with the testing approach, agreed with the DWP, this led to additional testing on 120 cases, with one further error identified. As a result of the errors found, a qualification letter was agreed with the Authority.

**26** The qualification letter extrapolated the errors found in two of the cells tested. The other errors found were in two of the headline cells relating to underpayment of benefit. This did not affect subsidy and the DWP does not require these type of errors to be extrapolated.

### Housing grant claims

**27** The Housing department submitted 3 claims for certification. There were improvements in the arrangements for preparation of 2 the Housing related claims, with no amendment or qualification required on the following claims:

- HRA Subsidy (HOU01)
- Disabled Facilities Grant (HOU21)

**28** However, certification of the third Housing claim, HRA Subsidy Base Data Return (HOU02) resulted in amendment in 3 fields within the claim. These were the result of the use of projected figures instead of actual rents received and the inclusion of disallowed terminations in the claim.

**29** A qualification letter was issued for the same reason as in the previous 2 years, as the Authority was unable to support the classification of dwelling archetypes.

**30** Since our previous qualification, the Council commissioned a survey to evidence the accuracy of dwelling classifications. The survey covered 600 dwellings, covering six different dwelling types. The results of this survey (completed in September 2009) highlighted significant errors in the classification of dwellings. The survey reported 156 errors arising from misclassification of dwelling type. This is an error rate of 26%.

**31** Based on these findings, we were unable to agree that dwelling archetypes had been counted correctly in accordance with the HRAS determination guidance. The guidance states the Council should be able to provide a comprehensive survey, of dwelling types and ages, to support the entries in the claim.

**32** The Council has subsequently decided to carry out further work to resolve this issue, and are including a check of the property archetypes in their full stock condition survey. The results were due to be reported in December 2010, with a revised due date of March 2011. The CLG has written to the Council to gain assurance that the matter has been resolved once the results of the full stock survey have been completed.

## Recommendation

**R2** Consider findings of full stock condition survey and where necessary update the stock listing to reflect the updated data. Ensure the survey has covered all dwelling archetypes and fully resolves qualification issues. A clear and reliable audit trail should be established to support the entries in the claim.

**R3** Ensure evidence to support updated stock listing is retained. Going forward the Council should be able to demonstrate basis for dwelling type classification through agreement to evidence.

## Corporate & Financial Resources claims

**33** Performance in the certification of Corporate & Financial Resources grant claims in 2009/10 was consistent with the previous years. No matters arose over the standard of working papers, with the Authority providing prompt responses to the audit team's requests and queries.

**34** The National Non Domestic Rates (LA01) claim was certified with no issues raised. This is comparable to past certification work.

**35** The Pooling of Housing Capital Receipts (CFB06) claim required minor amendments to the entries for administration costs and improvement costs. The amendments were the results of errors in apportionment and eligibility of costs. The Council should ensure all attributable costs comply with the grant terms and conditions.

**36** A third claim New Deal for Communities (RG03) was certified by Newman & Partners. This arrangement is consistent with previous years and the results of their work are not included in this report. The Council have received authorisation from the grant paying body, the LDA, to approve this approach.

## Recommendation

**R4** Ensure costs identified in claim are:

- apportionments on a fair basis; and
- identified costs are eligible and meet grant criteria.

### Business Transformation claim

**37** For Teacher's Pensions (PEN05), the Council implemented our recommendation from the previous year and reviewed the claim prior to submission to ensure it agrees to payroll records. There was no qualification this year and only one minor amendment made to the claim, which did not impact the final claim figure.

### Children & Families claims

**38** The Children & Families department submitted three claims to be certified. All were received by the appointed deadlines. Performance on all claims was good with no significant matters arising. However minor amendments were needed on each claim, as detailed below.

**39** The General Sure Start (EYC02) claim did not cast correctly. The error was minor and had been picked up in the Council's initial review of the claim, but had not been changed. The certification methodology requires us to check the arithmetic on each claim, with no consideration for insignificant errors. Therefore it is important the Council ensures the casting is correct before submission to minimise avoidable amendments.

**40** The Council receives funding for two LDA claims, Single Programme (RG31) (Childcare Affordability Programme) and Single Programme (RG31) (Youth Offer Scheme).

**41** In both cases the claims value was misstated, with the value of grant offered on the claims not agreeing to the grant award letter. In addition the Youth Offer Scheme claim incorrectly included capital funding, which it had received in 2008/09 not 2009/10.

**42** These errors only required minor amendment, but indicate areas where more thorough review and agreement to the original award letters would have prevented avoidable mistakes.

## Recommendation

## Recommendation

- R5** Check arithmetic on all claims prior to submission to the audit team.
- R6** Agree grant funding award recorded on claim agrees to grant award letter.
-

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Service	Claim	Pre-certification value £	Adequate control environment	Amended	Qualification letter
Corporate & Financial Resources	BEN01 Housing and council tax benefit	301,862,907	No	No	Yes
Corporate & Financial Resources	CFB06 Pooling of Housing Capital Receipts	686,027	No	Yes	No
Children & Families	EYC02 General Sure Start	11,915,288	No	Yes	No
Housing	HOU01 HRA Subsidy	19,366,989	No	No	No
Housing	HOU02 HRA Subsidy Base Data Return 2009/10	N/A	No	Yes	Yes
Housing	HOU21 Disabled Facilities	1,562,000	Yes	No	No
Corporate & Financial Resources	LA01 National Non-Domestic Rates	88,843,860	Yes	No	No
Business Transformation	PEN05 Teachers' Pensions	19,951,816	No	Yes (but no impact on claim amount)	No
Corporate & Financial	RG03 New Deal for	N/A	N/A	N/A	N/A

Service	Claim	Pre-certification value £	Adequate control environment	Amended	Qualification letter
Resources	Communities*				
Children & Families	RG31 LDA Single Programme (Childcare Affordability Programme)	467,763*	No	Yes	No

### Claims between £100,000 and £500,000

Service	Claim	Pre-certification value £	Amended
Children & Families	RG31 LDA Single Programme (Youth Offer Scheme)	234,426	Yes

\*Claim funding for projects is calculated based on funding received over the life of the project. RG31 LDA Single Programme (Childcare Affordability Programme) 2009/10 funding is £467,763, but project started in 2005/06 and total funding is over £500,000.

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

The Certification Instructions provided to the Council include the Control Environment and Testing Assessment used to assess the claim control environment. The Council should review this document and consider how the claim is prepared, and how the control environment may be improved. Improvements can lead to:

- Limited testing (Part A only); or
- Reduced substantive testing.

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**Responsibility**

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**Priority**

---

**Date**

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**Comments**

#### Recommendation 1

Consider findings of full stock condition survey and where necessary update the stock listing to reflect the updated data. Ensure the survey has covered all dwelling archetypes and fully resolves qualification issues. A clear and reliable audit trail should be established to support the entries in the claim.

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**Responsibility**

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**Priority**

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**Date**

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**Comments**

#### Recommendation 3

Ensure evidence to support updated stock listing is retained. Going forward the Council should be able to demonstrate basis for dwelling type classification through agreement to evidence.

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**Responsibility**

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**Priority**

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**Date**

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**Comments**

#### Recommendation 4

Ensure costs identified in claim are:

- apportionments on a fair basis; and
- identified costs are eligible and meet grant criteria.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	

**Recommendation 5**

Check arithmetic on all claims prior to submission to the audit team.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	

**Recommendation 6**

Agree grant funding award recorded on claim agrees to grant award letter.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	



# Opinion audit plan

London Borough of Brent

Audit 2010/11

**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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# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

**2** I will share this plan with officers and update it as necessary during the planning process.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**3** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**4** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

### **The fee for the audit is £488,000 as indicated in my letter of 20 April 2010.**

5 The Audit Commission scale fee for a Council is £451,600. The fee proposed for 2010/11 is 8 per cent above the scale fee and is within the normal level of variation specified by the Commission.

6 However, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12. This consultation was launched on 10 December 2010 and proposed a rebate of 3.5 per cent of the scale fee for London boroughs. The closing date of the consultation was 7 January 2011.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- The Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems, that I will be able to rely on their work and it is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions London Borough of Brent could take to reduce its audit fees**

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**12** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**13** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

## Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>The Council is required to prepare the 2010/11 accounts according to International Financial Reporting Standards (IFRS) (including a full re-statement of 2009/10 balances).</p>	<p>In 2009/10, I carried out a review of the council's restated PFI schemes against IFRIC 12 requirements; no significant issues were identified.</p>
<p>This poses a significant risk of material misstatement to the accounts.</p>	<p>In 2010/11, my audit team will:</p> <ul style="list-style-type: none"> <li>■ monitor implementation of IFRS at key stages; and</li> <li>■ review restated 2009/10 balances.</li> </ul>
<p>The Council has made significant changes to its financial IT systems. Separate departmental arrangements and systems have been consolidated into one Oracle system used throughout the Council, including the general ledger, accounts payable and accounts receivable. There have been associated staff losses and some staff have very different roles within finance, as part of modernising the service. These changes took place effective 1 September 2010. This is part of the 'One Council' Improvement and Efficiency strategy.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>■ consider reviews performed by Internal audit on the system changes;</li> <li>■ review the migration of data from existing systems to the new financial system;</li> <li>■ review controls over the new financial IT systems;</li> <li>■ document and test the new financial systems;</li> <li>■ perform controls testing, taking consideration of Internal audits work; and</li> <li>■ substantively test the output during our final accounts audit.</li> </ul>



Risk area	Audit response
<p>The Comprehensive Spending Review has put significant pressure on the Council to reduce costs. This may result in reductions to staff. The Council will need to assess the impact on the finance process and whether accounting is required for redundancy provisions.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>■ monitor changes to the finance team and review the closedown plan; and</li> <li>■ review accounting arrangements and year end balances to account for redundancies in accordance with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS37).</li> </ul>
<p>The Council has five arrangements accounted for under International Financial Reporting Interpretation Committee 12: Service Concession Arrangements (IFRIC12). The Council will need to continue to account for these appropriately, and consider any changes e.g. new asset transfers or variations to the original agreement.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>■ review arrangements to ensure any changes are identified and accounted for; and</li> <li>■ audit year end balances.</li> </ul>

## Value for money risks

**14** I will undertake my risk assessment for the vfm conclusion later in the year and communicate with you further then.

# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**15** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**16** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- review of changes to material financial systems and walkthrough tests to confirm our understanding of material financial systems;
- testing controls over journals, accounts payable and accounts receivable;
- year-end feeder system reconciliations.
- review of accounting policies under IFRS;
- review of working papers and changes already complete for IFRS;
- substantive testing of the first nine months income and expenditure;
- collation of information to issue our audit letters to experts, service organisations and auditors relied upon by the Council.

Where I identify other possible early testing, I will discuss it with officers.

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Journals;
- Accounts payable; and
- Accounts receivable

**18** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following area:

- Brent Housing Partnership (PriceWaterhouseCoopers (PWC))

**19** I also plan to rely on the work of experts in the following areas:

- Valuation of property, plant and equipment (Internal and External valuers);
- Valuation of pension fund assets and liabilities (Hewitts Actuaries);
- Provisions and contingent liabilities (Borough Solicitor); and
- Fair value disclosure of financial instruments (Arlingclose).

## Value for money conclusion

### **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**20** This is based on two criteria, specified by the Commission, related to your arrangements for:

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

**21** I will plan a programme of VFM audit work based on my risk assessment.

**22** I will plan a programme of VFM audit work based on my risk assessment.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**23** The key stages in producing and auditing the financial statements are in table 2.

**24** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**25** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Control and early substantive testing	January 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	14 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011 (to be confirmed)
Issue opinion and value for money conclusion	By 30 September 2011

## The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Andrea White District Auditor	<a href="mailto:a-white@audit-commission.gov.uk">a-white@audit-commission.gov.uk</a> 0844 798 5784	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Paul Viljoen Audit Manager	<a href="mailto:p-viljoen@audit-commission.gov.uk">p-viljoen@audit-commission.gov.uk</a> 0844 798 2688	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

### Independence and objectivity

**26** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**27** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

### Meetings

**28** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

### Quality of service

**29** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

**30** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**31** My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

---

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011 (day to be confirmed)
Auditor's report giving an opinion on the financial statements	September 2011 (day to be confirmed)
Final accounts memorandum	December 2011
Annual audit letter	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council:
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 30 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.



The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Finance & Corporate Resources	AM and Team Leader (TL)	February, July, September	General update plus: <ul style="list-style-type: none"><li>■ February - audit plan;</li><li>■ July - accounts progress; and</li><li>■ September - annual governance report.</li></ul>
Deputy Director of Finance & Corporate Resources and Head of Financial Management	AM and TL	Quarterly	Update on audit issues.
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"><li>■ Audit Plan;</li><li>■ Annual governance report; and</li><li>■ Other issues as appropriate.</li></ul>

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

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

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

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

### **Auditing standards**

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

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

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

## **Directors**

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

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

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

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

### **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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**0844 798 7070**

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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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February 2011

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# Audit opinion plan

**Brent Pension Fund**

**Audit 2010/11**



**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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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

**2** I will discuss and agree this plan, and any reports arising from the audit, with the Pension Fund Sub Committee. However, as the pension fund accounts remain part of the financial statements of the London Borough of Brent Council as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**3** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**4** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**5** Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

## Fee for the audit

### **The indicative fee for the audit is £35,000.**

6 The fee for the audit is £35,000, as indicated in my letter of 16 June 2010.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- audit trails are clear and easy to follow;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- where required, we are able to rely on the work of Internal Audit and that this is available in a timely manner.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions Brent Pension Fund could take to reduce its audit fees**

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Brent Pension Fund could take and to provide ongoing audit support.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

**12** I am also required to review the pension fund annual report as per the LGPS regulations 1997.

### **Materiality**

**13** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**14** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

## Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risk**

Specific opinion risks identified

Risk area	Audit response
<p>The Council is required to prepare the 2010/11 Pension Fund accounts according to International Financial Reporting Standards (IFRS) (including a full re-statement of 2009/10 balances).</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>■ review the Council's approach to the implementation of IFRS;</li> <li>■ substantively test any restated 2009/10 balances; and</li> <li>■ check all relevant disclosures have been made by the Council.</li> </ul>
<p>The Pension Fund has changed its financial IT systems during 2010/11 onto a new Oracle system that is used throughout the Council.</p>	<p>I will review the system changes to the new Oracle system as part of my work on the review of the overall IT systems within the Council.</p>
<p>The draft Pension Fund accounts for 2009/10 had disclosures required by the Statement of Recommended Practice (SoRP) missing or incomplete.</p>	<p>I will review the Council's approach to ensuring all disclosure requirements are identified and completed. I will also check all relevant disclosures have been complied with.</p>
<p>Some Pension Fund working papers for 2009/10 were not easy to follow and delays occurred in obtaining responses to some audit queries raised.</p>	<p>I will review working papers received at the start of the audit and report any issues immediately to officers. If I have any concerns that the quality of the working papers or any delays in audit responses may result in either additional fees or the deadline not being met, I will report this to the Director of Finance.</p>
<p>Pension Fund actuarial revaluation.</p>	<p>I will review the draft Pension Fund account disclosure notes against the actuarial revaluation reports.</p>



# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**15** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**16** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Benefits.
- Bank reconciliations.
- Year-end feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of their work on:

- pension administration system.

**18** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- London Pension Fund Authority (the Audit Commission).
- SAS70/AAF01 reports on internal controls produced by the external auditors of the fund managers and custodians used by the Pension Fund (various auditors).

**19** I also plan to rely on the work of experts in the following areas.

- Pension Fund assumptions and disclosures (Hewitt - Actuaries to the Pension Fund).
- Pension Fund assumptions (PricewaterhouseCoopers - Consulting Actuaries to the Audit Commission).

## Key milestones and deadlines

**The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**20** The key stages in producing and auditing the financial statements are in Table 2.

**21** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**22** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

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Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	January 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	14 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011 (to be confirmed)
Issue opinion	By 30 September 2011

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Andrea White District Auditor	<a href="mailto:a-white@audit-commission.gov.uk">a-white@audit-commission.gov.uk</a> 0844 798 5784	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Paul Viljoen Audit Manager	<a href="mailto:p-viljoen@audit-commission.gov.uk">p-viljoen@audit-commission.gov.uk</a> 0844 798 2688	Responsible for reviewing the quality of audit work and any specialist technical areas. Key point of contact for the Director of Finance.
Gary McLeod Audit Manager	<a href="mailto:g-mcleod@audit-commission.gov.uk">g-mcleod@audit-commission.gov.uk</a> 0844 798 5773	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

## Independence and objectivity

**23** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**24** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

**25** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

**26** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

**27** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**28** My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

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Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011 (day to be confirmed)
Auditor's report giving an opinion on the financial statements	September 2011 (day to be confirmed)
Final accounts memorandum	December 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:

- my cumulative knowledge of the Pension Fund;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Pension Fund officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards and undertakes appropriate work on all systems that provide material figures in the Pension Fund sufficient that I can place reliance for the purposes of my audit;
- you provide:
  - good quality working papers and records to support the financial statements by 30 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Deputy Director of Finance and Corporate Resources	AM and Team Leader (TL)	March, July, September	General update plus: <ul style="list-style-type: none"><li>■ March - audit plan;</li><li>■ July - accounts progress; and</li><li>■ September - annual governance report.</li></ul>
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"><li>■ Audit Plan;</li><li>■ Annual governance report; and</li><li>■ other issues as appropriate.</li></ul>

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



## Appendix 4 Glossary

### **Audit of the accounts**

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

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

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

### **Auditing standards**

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

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

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

### **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**


The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

	<p style="text-align: center;"><b>Audit Committee</b> 22 February 2011</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
Wards Affected: ALL	
<b>2011/12 Treasury Management Strategy and Annual Investment Strategy</b>	

## 1. SUMMARY

- 1.1 This report details the Treasury Management Strategy and Annual Investment Strategy for 2011/12.

## 2. RECOMMENDATIONS

- 2.1 Members are asked to note and comment on the 2011/12 Treasury Management Strategy and Annual Investment Strategy.

## 3. DETAIL

- 3.1 I have attached below the 2011/12 Treasury Management Strategy and Annual Investment Strategy that will be presented to Full Council as part of the Annual Budget Report. Members are asked to comment on the strategies. I have also attached details of the Council's lending as at 31<sup>st</sup> December 2010.

- 3.2 In October 2010, the Council repaid early £50m debt owed to the Public Works Loans Board (PWLB). The main purpose was to reduce interest costs – the average interest rate payable on the PWLB loans repaid was 4.41%, whereas bank rate is currently 0.5%. It is expected that bank rate may rise slightly, but will remain low over the next three years. It is anticipated that the Council will save around £700,000 per annum through the early repayment.

## 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 2010.

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.

**CLIVE HEAPHY**  
Director of Finance and  
Corporate Services

**MARTIN SPRIGGS**  
Head of Exchequer and Investment

## APPENDIX 1

### Brent treasury lending list

1 The current loans outstanding as at 31st December 2010 are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	9.3	Var.	Call	
Gartmore cash reserve	12.0	Var.	Call	
Heritable bank	5.5	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	
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	5.0	1.13	22.09.08	22/09/11
Nottingham City Council	4.0	0.45	21.12.10	04.01.11
Nottingham City Council	<u>10.0</u>	0.42	30.12.10	13.01.11
<b>Total</b>	<b><u>55.9</u></b>			

Brent has also invested £23.5m 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:-

	Amount £m	Yield %	Maturity Date
Barclays Bank CD	2.7	1.45	01.08.11
RBOS CD	2.3	1.2	03.08.11
Clydesdale Bank CD	3.5	0.0	24.05.11
Barclays Bank CD	1.5	1.42	14.10.11
Lloyds TSB CD	3.0	1.48	05.12.11
Lloyds TSB CD	1.5	1.2	03.08.11
RBOS CD	2.25	3.1	07.02.11
Nationwide BS CD	2.2	1.23	28.03.11
Abbey National CD	3.15	1.44	18.10.11
Abbey National CD	1.2	0.0	24.11.11
HSBC Current account	-		
Accrued interest	<u>0.2</u>		
	<b><u>23.5</u></b>		

## **SECTION 10**

### **10. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT**

#### **STRATEGY 2011/12**

##### **Introduction**

- 10.1 This section of the report presents:
- a. The 2011/12 Treasury Management Strategy setting out the proposed borrowing and lending policy and the factors influencing this over the coming year.
  - b. The 2011/12 Annual Investment Strategy setting out the security of the investments made by the authority.
- 10.2 Under the Local Government Act 2003, local authority borrowing is regulated by the Prudential Code, details of which are set out in Section 11 of the Budget Report, and the requirement for an Annual Investment Strategy.
- 10.3 Members are asked to agree
- a) The Treasury Management and the Annual Investment Strategies for 2011/12 as part of the main recommendations to the report.

##### **Regulatory Requirements**

- 10.4 The 2009 Code of Practice for Treasury Management issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) includes provision for an annual report to Members on the Treasury Management Strategy. The Code requires that Members consider and agree the strategy before the beginning of each financial year. The Treasury Management Strategy is sensitive to interest rate movements, which may affect receipts from interest on balances, or payments of interest on new long term loans to the authority.
- 10.5 Guidance issued under Section 15 (1) (a) of the Local Government Act 2003 also requires that authorities should prepare an Annual Investment Strategy (AIS) to be agreed by Full Council before the commencement of each year. The AIS is required to set out the security of investments used by the authority, analysed between Specified and Non-Specified investments and clarifying the use of credit ratings. It also has to set out the maximum periods for which funds may prudently be committed (liquidity). To discourage the use of investments that may be considered speculative, such as equities, the acquisition of share or loan capital in any body corporate (such as a company) is defined as capital expenditure. On this basis, Brent does not invest treasury balances in shares, corporate bonds or floating rate notes issued by companies except through pooled schemes.
- 10.6 The Department for Communities and Local Government (DCLG) issued revised Guidance in 2010 following the collapse of Lehman Brothers and

various Icelandic banks, and the House of Commons Select Committee report on local authority investments in Icelandic banks. The Guidance main points are:-

- a) Security and liquidity are the key issues in lending. There should be clear policies on the duration of loans, and the share of the portfolio that can be lent for longer periods.
- b) The Treasury Strategy should be approved by Full Council. Authorities should consider sending revised strategies to members during the year.
- c) The Treasury Strategy should be published.
- d) Local Authorities should not rely solely on credit ratings but consider other information.
- e) The Treasury Strategy should comment on the use of advisers.
- f) The Treasury Strategy should comment on the investment of money borrowed in advance of need. The Guidance confirms that it is legitimate for authorities to borrow in advance, but is concerned that the consequent loans into the market should be legitimate and not be speculative.
- g) The Treasury Strategy should comment on how staff training is reviewed and training needs met.
- h) The Treasury Strategy should include proposals for regular scrutiny by members.

The proposed AIS for 2011/12 is attached.

### **Economic Background**

- 10.7 The international economic background in 2008 was extremely volatile, with rising oil and commodity prices, and a credit crisis that led to the collapse / takeover / rescue of various banks as inter bank lending and the wider provision of credit reduced. In 2009, recession (the UK economy shrunk by 4.5%), low interest rates (UK 0.5%) and stock market recovery (up by 50% since the trough in March) were the main features. In 2010, growth resumed, as follows:-
- a) Economic growth was positive. The UK economy grew by around 1.4%, Europe 1.5%, USA 2.7%, China 10%, and the World economy by 4.3%.
  - b) Stock markets rose by around 10% - 15%.
  - c) In UK, house prices were stable overall, rising in London and the South East but falling elsewhere. Commercial property prices continued to recover during the year.
  - d) Despite the previous recession and low wage increases, and contrary to expectations, UK inflation rose by 3.7% in 2010, driven by rising commodity prices, an increase in VAT and the decline in the value of sterling.
  - e) Short term interest rates have remained very low (UK 0.5%, USA 0% - 0.25%, ECB 1%) as Central Banks have sought to support economic activity and recapitalise the banks. Longer term rates have been held down by quantitative easing in UK and USA.
- 10.8 Looking ahead to the next financial year, it is expected that world economic growth will slow marginally to around 4% in 2011, led by growth in emerging

economies such as China and India (8.5% - 9%) but restrained by lower growth in some developed countries and falling output in such countries as Ireland and Greece. Although the USA economy should grow by around 3% in 2011, it is anticipated that UK and Europe will only grow by around 1% / 2%. Reductions in public expenditure and tax increases may reduce growth rates further. Interest rates should continue to be very low – UK Bank Rate may remain at 0.5% throughout 2011, possibly rising to 1% towards the end of the financial year. Inflation may continue to be a concern - at present CPI (3.7%) is well above the Bank of England target rate of 2%, and may rise further in 2011 as a result of commodity price rises, VAT increases and the previous fall in the value of sterling. However, low pay increases (only 2.1% per annum in the year to December), unemployment and unused capacity should reduce inflation in 2012. Long-term interest rates may rise as governments borrow money to fund recovery programmes, but high saving rates in Asia may restrain large increases. However, the government has increased interest rates charged by the Public Works Loans Board, so that any council borrowing will be more expensive.

### **Financial Market Background**

- 10.9 The sub-prime crisis and credit crunch of 2007 – 2009 led to the collapse of a number of banks, either into nationalisation, forced mergers or disappearance. However, the collapse of Lehman Brothers – a key broker and investment bank – in September 2008 caused a financial tsunami to overrun the banking system.
- 10.10 Although there has been progress in repairing the banking system through quantitative easing, recapitalisation and regulatory activity, there remain a number of issues to solve. In USA, new regulations (to reduce the opportunity for banks to trade) are only partially in effect. The housing market in USA, with widespread negative equity, will take years to recover. In UK, the housing market remains fragile as lenders restrict credit, so that prices may fall by a further 10% in 2011. Further, there are many other commercial property and other loans that remain on the brink of default. In Europe, bank debts are causing both nationalisation and restructuring of the banking sectors, and rising interest rates on sovereign debt. These factors have meant that Brent has continued to restrict the Lending List to UK institutions.
- 10.11 The collapse of Lehman Brothers, and the financial tsunami that followed, caused three Icelandic banks to be put into administration when their credit ratings were reduced and they were unable to meet short term obligations. Brent had two deposits outstanding, as follows:-

Heritable Bank	£10m	Lent 15.08.08	Repayable 14.11.08
Glitnir Bank	£5m	Lent 15.09.08	Repayable 12.12.08

To date, the council has had £5m returned by the administrators of Heritable Bank, who suggest that depositors will recover at least 80% of their original sum. It is anticipated that the £5m deposited with Glitnir will be returned as legal advice is that the deposit will be treated as a preferential creditor. However, progress is likely to be slow in the light of legal challenges, especially from the Winding up Board for the Bank. If the deposits are not



returned in 2011/12, the lost interest will be around £50,000 (assuming an interest rate of 0.5%). The council is making provision for some non-payment in the 2010/11 accounts.

- 10.12 In the light of the turmoil on the financial markets, the Lending List agreed by the Director of Finance & Corporate Services was reconstructed to reduce risk by the removal of foreign and lower rated UK banks, and Building Societies. In March 2009 and October 2010 the council made early repayment of loans from the PWLB valued at £64.75m and £50m., thus generating substantial savings (£2.2m per annum) and reducing balances available to deposit with other banks (currently at very low interest rates). The repayment reduced council long term borrowing to £586.5m, around £60m below the anticipated level of the Capital Financing Requirement at the end of financial year 2010/11.

### Lending Policy

- 10.13 Treasury management is defined as the management of the organisation's cash flows and 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.
- 10.14 Table 10.1 indicates the projected summary cash flow for the authority. It is anticipated that cash balances will be approximately £30m by 31<sup>st</sup> March 2012 if the council takes £75m in short term borrowing and resumes long-term borrowing.

**Table 10.1 - Cash Flow Summary 2011/12**

	£m	£m
<b>Cash Balances as at 1 April 2011</b>		<b>-20</b>
Capital programme (including BHP loans)	(100)	
Debt repayment (including premia)	(2)	
		(102)
		(122)
Repayment by Heritable Capital receipts/grants	2	
Payment of debt premia	5	
Long-term borrowing	54	
Short term borrowing	75	
Minimum Revenue Provision	11	147
<b>Cash Balances as at 31 March 2012</b>		<b>25</b>
<b>Total long-term borrowing as at 31.03.11</b>		<b>586</b>

- 10.15 In 2010 it was felt that the market had recovered significantly and that debt defaults would reduce. Following consultation with the adviser, first Butlers then Arlingclose, and a report to the Audit Committee, the former Director of Finance and Corporate Resources increased loan duration to one year, reinstated a suitably rated building society to the lending list and increased the size of loans to local authority and government institutions. The

construction of the list also utilises credit analysis undertaken by Arlingclose. The current list is as shown in Table 10.2 below.

**Table 10.2 – Current Brent Lending List**

<p><b>A. UK BANKS – UP TO £10M for INDIVIDUAL banks or Banking GROUPS, or building societies as indicated below</b></p> <p><b>Rated AA- or above long, F1+ short term, B/C or above individual, 1 support (unless part owned by the government or supported by an implicit guarantee). Up to one year</b></p> <p>Bank of Scotland Lloyds Bank – linked with Bank of Scotland as part of Lloyds</p> <p>Barclays Bank PLC HSBC Bank Clydesdale / Yorkshire Bank Santander UK Ltd</p> <p>National Westminster Royal Bank of Scotland – linked with Nat West as part of the RBOS group</p> <p>Nationwide building society</p> <p><b>B. MONEY MARKET FUNDS –UP TO £12M</b></p> <p><b>Rated AAA</b></p> <p>Royal Bank of Scotland Morgan Stanley Cash Fund Northern Trust</p> <p><b>C. DEBT MANAGEMENT OFFICE – NO LIMIT – up to one year</b> <b>D. OTHER LOCAL OR GOVERNMENT AUTHORITIES – up to one year</b> <b>E. SUPRANATIONAL INSTITUTIONS – UP to £10M</b></p> <p><b>AAA</b> long term and F1+ short term ratings that are supported by major international organisations such as the USA FED or the European Central Bank. These have only ever been used by external managers</p>
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10.16 The 2009 CIPFA Code of Practice in Treasury Management recommends that authorities should have regard to the credit ratings issued by all three main rating agencies, and make their decisions on the basis of the lowest rating, as well as to seek independent credit research. Two of the British banks, Royal Bank of Scotland and Lloyds, are rated lower (A+) by one of the rating agencies, but they have not been removed from the lending list on the grounds that they are part owned by the government as well as supported by an implicit government guarantee that allows them to issue certificates of deposit.

10.17 Over the longer term there are operational difficulties in running a reduced Lending List and a cost in foregone interest receipts. It is proposed that, if market conditions remain calm, the Council returns to using a longer Lending

List in April. The Lending List will incorporate features outlined in the 2010 Treasury Strategy report, such as sovereign ratings, a limit of 20% on individual country exposure, with the exception of UK, no deposits with companies or countries that are on a negative rating watch, maximum deposit of £10m apart from government related agencies and AAA rated money market funds, and maximum lending period reduced to three years (with senior management approval).

10.18 Details of the basis on which credit ratings are used are set out in Table 10.3 below.

**Table 10.3 – Use of Credit Ratings**

<p>a) The credit rating agencies (Fitch, Moody's and Standard &amp; Poor) meet with financial institutions, review their financial prospects and issue ratings.</p> <p>b) The main source of ratings used by Brent is Fitch, which uses four sets of criteria which can be used as an overall grid. This approach should reduce risk, and is followed by a number of other authorities – though some authorities only use two ratings (long term credit and short term credit). The other two rating agencies do not issue support ratings.</p> <p>c) The Fitch ratings are as follows:</p> <ul style="list-style-type: none"><li>i. Long term credit ratings are a benchmark of probability of default. The scales are split between investment and speculative grade – Brent only uses investment grade, which is spread from AAA – highest credit quality – to BBB – good credit quality.</li><li>ii. Short term credit ratings are a benchmark of the probability of default, but with a 13 month time horizon. These are usually most relevant to our activity. The scale spreads from F1 (P1 for Moody's) – highest credit quality – to D, which is default.</li><li>iii. Individual ratings are assigned only to banks and attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. The rating looks at soundness of balance sheets and business models. There are often no ratings for subsidiaries. The scale spreads from A, a very strong bank, to F, a bank that has either defaulted or would have defaulted had it not been given support.</li><li>iv. Support ratings indicate whether or not the bank will receive support should this be necessary. The scale spreads from 1, extremely high probability of external support, to 5, where support cannot be relied upon.</li></ul>
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10.19 The Council uses these ratings to establish its lending list, but also includes institutions that have been accepted by the UK government's credit guarantee scheme. It is felt that admission to the scheme indicates that the institution is too significant to the economy to be allowed to default.

10.20 At present, the investment company, Aberdeen Asset Management, manages an external portfolio valued at £23.5m, whereas the in-house manager has around £40m. The external manager follows the Brent lending list, and is allowed to use certificates of deposit (CDs), supranational bonds, government gilts and cash to enable them to improve performance, with a target of outperforming their benchmark by 0.5% per annum. The manager has outperformed substantially in recent years using longer dated (one year) CDs. It is felt prudent to retain external managers with different benchmarks,

encouraging diversification. However, changes to the borrowing policy to reflect very low interest rates and the recent increase in PWLB lending rates may mean that the council reduces the funds placed with an external manager.

- 10.21 As set out above, rates are at 0.5% and are expected to remain at that level or rise marginally (to 1%) during the year. In-house activity will seek to lend for longer periods when appropriate, and use money market funds to add extra yield. However, reduced cash balances following previous restructurings will ensure that most cash is used for day to day cash flow purposes. The 2011/12 budget assumes that Brent will receive further payments from Heritable bank (£2m), but no payments from Glitnir, and that there will be no interest paid on deposits that are outstanding.

### **Borrowing Policy**

- 10.22 Long-term interest rates have been volatile during 2010/11. Initially rates fell as a result of Quantitative Easing and the flight to safety during the Greek debt crisis. Recently, gilt rates have recovered (50 year gilts 4.3%, PWLB 5.3%) as markets looked at high levels of gilt issuance and economic recovery. It is anticipated that long-term rates may rise further in 2011/12 as the world economy recovers and inflation worries increase, but there are conflicting pressures. Rates may be reduced as a result of further quantitative easing, increases in taxation / reductions in government expenditure, or as a result of high saving levels in Asia. The budget uses a prudent assumption of a mix of short term borrowing and some longer term borrowing at an average interest rate of 5%.
- 10.23 Borrowing policy in 2010/11 will be determined by a number of factors:
- a) The capital programme for 2011/12, including the new Civic Centre (£47m), and loans to Brent Housing Partnership for new houses (£46m).
  - b) The cost of loans from the PWLB. Previously the PWLB charged local authorities a 0.15% margin over government gilt rate when they took loans. In October 2010, the margin was increased to 1%, increasing pressure on councils to reduce capital programmes, borrow from other sources and to use internal resources (balances) rather than borrow externally.
  - c) The Capital Financing Requirement (CFR). This is 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. Research by the council's treasury advisers had previously indicated that CFR has been the most economical level for the authority's long-term debt. However, whereas before 2008 the interest rate curve had been 'inverted', with long term rates lower than short term rates, the curve has now normalised so that it may be advantageous not to borrow up to CFR but use relatively cheaper, short term debt and reduce lending to the market. However, if long term rates are expected to rise to allow the government to fund its deficit through gilt issuance, it may be advantageous to take long term debt despite the short term cost. Alternatively, if short-term interest rates remain low, some debt may be taken at variable rates that follow short-term rates.

This approach has the advantage of reducing borrowing costs if rates remain low, matching reduced receipts from lending.

- d) The need to borrow. The cash flow summary indicates a need to borrow in 2011/12 if the target is CFR.
- e) Movements in interest rates during the year. The current 50 year gilt rate of 4.3% is, theoretically, composed of elements to cover expected inflation (2.5% - 3% for RPIX), a real yield (usually about 2.5% - 3%) and a risk premium (around 0.5%). This implies either that current long-term rates are low and may rise marginally, or that inflation will remain very low and that the risk premium is lower. Market commentators are concerned that inflation may remain high, though the Bank of England believes that inflation will fall in 2012 .
- f) The prudential limits to borrowing as agreed by Full Council (see Prudential Code section of the Budget Report, Section 11).

10.24 It is proposed to borrow a further £67m long term in 2011/12 for the main capital programme and BHP. Officers will also look at market forecasts to confirm the advantages/disadvantages of borrowing early to fund major developments. Additional loans may also be taken if restructuring opportunities are evident or anticipated.

10.25 The Department for Communities and Local Government (DCLG) has proposed a reorganisation of housing finance in 2012, involving the repayment of housing revenue account debt. It may be necessary to amend the borrowing programme or undertake preparatory debt restructuring to minimize any adverse implications to the General Fund.

### **Prudential Indicators**

10.26 Under the revised Treasury Management Code issued in 2009, the treasury prudential indicators are to be included within the treasury management strategy report. The Code requires increased analysis of loan duration, so that all loans above ten years are shown in ten year bands. The prudential indicators are as follows:

- a. Adoption of the CIPFA Code of Practice for Treasury Management. This was adopted by the Council in September 2002. Amongst other things, it requires publication of an annual treasury management strategy, a mid-year report and an outturn report.
- b. Exposure to changes in interest rates:
  - *Upper limit on net borrowing at fixed interest rates.* This has been set at 100% on the basis that all net borrowing may be at fixed rates if it is anticipated that short-term rates are set to rise and long-term rates are perceived to be low. Variable interest borrowing would be retained up to the level of any variable interest investments;
  - *Upper limit on net borrowing at variable rates.* This has been set at 40%. Variable rate borrowing is held as a hedge against variable rate investments. It also may be held where variable interest rates are low compared to fixed rates and fixed rates are expected to fall. The upper limit has also been set with debt restructuring in mind.

c. *Maturity structure of borrowing.* Upper and lower limits on proportion of fixed interest loans that mature in:

- Under 12 months;
- Between 12 months and 24 months;
- Between 24 months and 5 years;
- Between 5 and 10 years;
- Between 10 and 20 years
- Between 20 and 30 years
- Between 30 and 40 years
- Between 40 and 50 years

The limits have been set to allow flexibility to manage loan durations but also to avoid having too much exposure to maturing loans in any period.

d. *Total investments.* The limit proposed allows flexibility for either external managers or the in-house team to lend for longer periods than one year if interest rates make this advantageous. The limit has been set at £40m to reflect lower balances.

**Table 10.4 Prudential Indicators for Treasury Management**

	2010/11	2011/12	2012/13	2013/14	2014/15
TM Code adopted	Yes	Yes	Yes	Yes	Yes
Exposure to interest rate changes:					
Upper limit on fixed rate interest (% of net borrowing)	100%	100%	100%	100%	100%
Upper limit on variable rate	40%	40%	40%	40%	40%
Maturity of fixed interest borrowing:					
Under 12 months:					
○ Upper limit	40%	40%	40%	40%	40%
○ Lower limit	0%	0%	0%	0%	0%
Between 12 and 24 months:					
○ Upper	20%	20%	20%	20%	20%
○ Lower	0%	0%	0%	0%	0%
Between 24 months and 5 years:					
○ Upper	20%	20%	20%	20%	20%
○ Lower	0%	0%	0%	0%	0%
5 to 10 years:					
○ Upper	60%	60%	60%	60%	60%
○ Lower	0%	0%	0%	0%	0%
10 to 20 years: (Note – similar limits for 20–30, 30–40 and 40–50 years)					
○ Upper	100%	100%	100%	100%	100%
○ Lower	0%	0%	0%	0%	0%
Upper limit on Investments of more than one year:	£40m	£40m	£40m	£40m	£40m

**Debt Restructuring**

10.27 Many long-term loans were borrowed from the PWLB during periods when interest rates were high. The regulations under which such loans were given prevent their repayment without incurring substantial premia to reflect any difference between current low rates and previous higher rates. This could

make the repayment of long-term debt with high interest rates expensive, especially if charged to the revenue budget for any one year.

10.28 Market loans known as LOBOs (Lenders Option, Borrowers Option) are long-term loans (up to 70 years) that allow the lender the option to increase the rate after a period of years. The borrower also has the option to refuse to pay a higher rate and repay the loan without incurring a penalty. Local authority debt is regarded as of high quality to lending institutions that are keen to grow such business on their loan books. To date Brent has taken 15 LOBOs, valued at £95.5m. The council may take more LOBOs if opportunities arise, subject to limiting council's exposure to potential increases during the period of the loan.

10.29 There are also other occasions when refinancing may be advantageous:

- a) When rates rise, but are expected to fall again later. In such cases it may be advantageous to switch to variable rate debt before fixing back into lower rates.
- b) If debt has a short period to maturity but market interest rates are unduly pessimistic.

10.30 It is proposed to continue monitoring opportunities for debt restructuring and to take action as circumstances allow. In a low interest rate environment, there are fewer opportunities to restructure. At present the council's main lender, the Public Works Loans Board (PWLB), has changed its terms to charge a larger premium on debt repaid prematurely.

### **Member Engagement**

10.31 Before 2008, two Treasury Management reports were made each year, unless important issues arose. The reports were the Strategy report, when setting the budget, and the Outturn report at year end. However, since the collapse of Lehman Brothers and the default of the Icelandic banks, there have been reports on lending activity to each meeting of the Audit Committee, setting out deposits at the end of each quarter and how the lending list has changed over the period. Other papers have detailed the report of the Commons Select Committee on local authority lending to Icelandic banks, the revised CIPFA Treasury Management Code of Practice and the DCLG Guidance on local authority investments.

10.32 The revised CIPFA Treasury Management Code of Practice makes some changes to previous practice, as follows:-

- a) A mid-year review of the annual treasury strategy to Full Council, looking at activities undertaken and any variation from agreed policies / practices.
- b) The Audit Committee is to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- c) The Director of Finance and Corporate Services is to ensure that members tasked with treasury management responsibilities have access to appropriate training opportunities



As part of this, a training session for members was held in November 2010, and attended by 16 councillors.

## **ANNUAL INVESTMENT STRATEGY 2011/12**

1. Brent Council has regard to the Department for Communities and Local Government Guidance on Local Government Investments (“Guidance”) and CIPFA’s ‘Treasury Management in the Public Services’.

### **2. Investment Principles**

2.1 All investments will be in sterling. The general policy objective is the prudent investment of the council’s treasury balances. The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

2.3 The Guidance maintains that the borrowing of monies purely to invest or on-lend to make a return is unlawful. The council will not engage in such activity.

### **3. Specified and Non-Specified Investments**

3.1 Investment instruments identified for use in the financial year are listed in Appendices N(ii) and N(iii) under the ‘Specified’ and ‘Non-Specified’ investments categories. These are defined as follows:

a) Specified Investments (as set out in the Guidance) are those that offer high security and liquidity. Such investments will be in sterling, with a maturity of no more than one year, and will be made to bodies with high credit ratings – UK or local government, banks, building societies, money market funds, and supra-national institutions.

b) Non-specified Investments (as set out in the Guidance) are those that may either entail more risk or are more complex, such as gilts, certificates of deposit or commercial paper. In all cases where time deposits (loans with a fixed maturity date to banks, building societies etc) are not involved, external fund managers will take investment decisions within their Investment Management Agreements.

3.2 Appendices N(ii) and N(iii) also set out:

(a) the advantages and associated risk of investments under the category of “non-specified” category;

(b) the upper limit to be invested in each ‘non-specified’ asset category;

(c) which instruments would best be used by the council’s external fund managers or after consultation with the council’s treasury advisors.

### **4. Liquidity**

4.1 Based on its cash flow forecasts, the council anticipates its fund balances in 2011/12 to range between £30m and £80m.

- 4.2 Giving due consideration to the council's level of balances over the next three years, the need for liquidity, its spending commitments and provisioning for contingencies, the council has determined that up to £20m may be held in 'non specified' investments during the year.
- 4.3 Appendices N(ii) and N(iii) set out the maximum periods for which funds may be prudently committed in each asset category. The duration of cash deposits has been shortened to three years (from five years) following severe volatility seen in the recent credit crisis. However, the current lending list will continue to use the shorter limit of one year to recognise that the banking system has not yet healed from the credit crisis.

## **5. Security of Capital: The Use of Credit Ratings**

- 5.1 Credit quality of counterparties (issuers and issues) and investment schemes will, in the first instance, be determined by reference to credit ratings published by Fitch IBCA, Standard and Poor's, and Moody's (long-term/short-term, individual, support and sovereign), but the council will use the lowest ratings from the three companies. The Council will also use group and national limits to assist in proper diversification of investments, as well as duration limits. The external manager will use Brent Council's Lending List to establish authorised borrowers.
- 5.2 Monitoring of credit ratings:
- All credit ratings will be monitored continuously. Brent Council is alerted to changes in ratings through the adviser's (Arlingclose) website and emails.
  - If it is anticipated that a downgrading may occur following adverse economic developments; the Head of Exchequer & Investments or a dealer will have discretion to remove the counterparty from the lending list.
  - If a downgrade results in the counterparty/investment scheme / country no longer meeting the council's minimum criteria, its further use as a new investment / investment venue will be withdrawn immediately.
  - If a counterparty/investment scheme is upgraded so that it fulfils the council's criteria, the Director of Finance & Corporate Resources will consider including it on the lending list.
  - The council will also use other sources of information to assess the credit worthiness of counter-parties and general market intelligence. Advice will be gleaned from the treasury adviser (Arlingclose), financial publications, asset managers and Capital Economics. Access will also be available to the credit lists used by two investment managers used by the council.
  - Dealers are expected to act prudently and may decline to use particular counterparties if there is any cause for concern.

## **6. Investments Defined as Capital Expenditure**

- 6.1 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure. Brent Council will not use or allow its external fund manager to make, any investment which will be deemed capital expenditure.

## **7. Investment Strategy to be followed In-House**

- 7.1 Investments will be made with reference to the core balance (£40m), cash flow requirements and the outlook for short and medium-term interest rates (i.e. rates for investments up to 3 years).
- 7.2 Once stability has returned, the council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest at potentially higher rates, while looking for longer-term opportunities when the market becomes too pessimistic about rising rates. Brent Council has identified 2% as an attractive trigger rate to consider 1-year lending and 5% for 2 and 3 year lending. The 'trigger points' will be kept under review and discussed with Arlingclose so that investments can be made at the appropriate time.

## **9. External Cash Fund Management**

- 9.1 Brent Council's funds are managed on a discretionary basis by Aberdeen Asset Management. The fund manager is contractually required to comply with this strategy.
- 9.2 Brent Council will discuss with its external fund manager on a regular basis, instruments that they consider may be prudently used to meet the council's investment objectives. Brent Council will evaluate the risk-reward characteristics of asset categories to decide whether to permit the manager to use instruments that comply with the Guidance.

## **10 The role of the treasury adviser**

- 10.1 The treasury adviser (Arlingclose) gives advice on debt restructuring opportunities, interest rate movements, economic forecasts, external treasury managers and current capital finance developments. The adviser also provides credit ratings, and details of changes / possible changes in ratings.
- 10.2 However, it is for the council to take decisions on whether or not to act on the advice given. Other sources of market information and intelligence will also be sought.

## **11 Borrowing in advance**

- 11.1 The council has previously used the Capital Financing Requirement (CFR) as a measure of borrowing need, but the low level of short term interest rates means that either short term loans will also be taken or internal cash balances used. The CFR reflects the total capital expenditure of the authority.
- 11.2 The council plans that total borrowing should be at, or about, CFR at year end. However, the capital programme may be delayed, leading to total borrowing being above CFR. Other factors will also affect borrowing decisions. If it is expected that long-term rates may rise, borrowing may be undertaken early. This will be particularly important if there is a major project being undertaken, such as the new Civic Centre. If long term rates are high, but short term rates very low (as at present), borrowing may be delayed to reduce funding costs.
- 11.3 If borrowing is undertaken in advance of need, the balance will be placed with a secure counterparty. If large sums are involved, consideration will be given to purchasing an appropriate government gilt, to preserve capital.

## **12 Staff training**

- 12.1 There are three main treasury management training 'areas'. First, dealing, which requires understanding of cash flow issues, information systems, the lending list, dealing and settlement of deals. Second, authorisation of deals, which requires knowledge of the lending list and information systems. Third, management requires an understanding of the market, treasury management codes, economic background, and current treasury management policies and strategies.
- 12.2 Staff training is reviewed on an ongoing basis to ensure that trainee accountants are given an initial treasury induction, and that dealers / managers are given access to market developments and technical updates on treasury issues (particularly changes to the lending list) and regular dealing practice.
- 12.3 Training needs are met through a variety of methods. New dealers are given on the job induction training, to enable them to deal competently, as well as attendance at relevant external conferences and seminars. Ongoing learning is through conferences and seminars provided by the main treasury organisations, CIPFA and economics consultancies. The principal treasury officer has passed the course in Treasury Management organised by the Association of Corporate Treasurers and CIPFA.

**LOCAL GOVERNMENT INVESTMENTS  
SPECIFIED INVESTMENTS**

*All "Specified Investments" listed below must be sterling-denominated.*

<b>Investment</b>	<b>Share/ Loan Capital?</b>	<b>Repayable/ Redeemable Within 12 Months?</b>	<b>Security/ Minimum Credit Rating</b>	<b>Capital Expenditure?</b>	<b>Circumstance of Use</b>	<b>Maximum Period</b>
<b>Debt Management Agency Deposit Facility</b>	No	Yes	Govt-backed	No	In-house	1 year
<b>Term or callable deposits</b> with the UK government or with UK local authorities	No	Yes	High security although local authorities are not credit rated.	No	In-house and by external fund manager	1 year
<b>Term or callable deposits</b> with credit-rated deposit takers (banks and building societies)	No	Yes	Yes-varied	No	In-house and by external fund manager	1 year
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies)	No	Yes	Yes-varied	No	To be used by fund managers	1 year
<b>Gilts</b> : with maturities up to 1 year	No	Yes	Govt-backed	No	In house and by external cash fund manager subject to the management agreement	1 year
<b>Money Market Funds</b> (i.e. a highly rated collective investment scheme)	No	Yes	Yes- minimum : AAA	No	In-house and by external fund manager subject to the management agreement	<i>Subject to cash flow and liquidity requirements</i>

Investment	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Capital Expenditure?	Circumstance of Use	Maximum Period
<b>Forward deals</b> with credit rated banks and building societies	No	Yes	Yes-varied	No	In-house and fund manager	1 year in aggregate
<b>Commercial paper</b> <i>[short-term obligations generally with a maximum life of 9 months issued by banks and other issuers]</i>	No	Yes	Yes-varied	No	External fund managers subject to the management agreement	9 months
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year]</i>	No	Yes	Govt-backed	No	External fund manager subject to the management agreement	1 year
<b>Bonds issued by a financial institution that is guaranteed by the United Kingdom Government</b>	No	Yes	Govt-backed	No	External cash fund managers subject to management agreements	1 year
<b>Bonds issued by multilateral development banks</b>	No	Yes	AAA	No	External cash fund managers subject to management agreements	1 year

**LOCAL GOVERNMENT INVESTMENTS**  
**NON-SPECIFIED INVESTMENTS**

Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
<b>Term deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	<p>(A) (i) <b>Certainty of rate of return over period invested.</b></p> <p>(ii) <b>No movement in capital value of deposit despite changes in interest rate environment.</b></p> <p>(B)(i) Liquid : as a general rule, but cannot usually be traded or repaid prior to maturity.</p> <p>(ii) Return is fixed even if interest rates rise after making the investment.</p> <p>(iii) Credit risk : potential for greater deterioration in credit quality over longer period</p>	No	No	Yes-varied	No	In-house, authorised by senior management	100%	3 years
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	<p>(A)(i) Although tradable, can be illiquid in a credit crisis.</p> <p>(B)(i) 'Risk that price may fall during the life of the CD, so that there may be a capital loss if the instrument is sold early.</p>	No	Yes	Yes-varied	No	To be used by fund manager	80%	3 years
<b>UK government</b>	(A)(i) Excellent credit quality.	No	Yes	Govt backed	No	External cash	50%	10 years

gilts with maturities in excess of 1 year	(ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.					fund manager only subject to the management agreement		
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Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
<b>Sovereign issues, excluding UK government gilts</b> : any maturity	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	No	External cash fund manager subject to the management agreement	50%	10 years
<b>Forward deposits</b> with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A)(i) Known rate of return over period the monies are invested ~ aids forward planning.  (B)(i) Credit risk is over the whole period, not just when monies are actually invested.  (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	Yes - varied	No	To be used in-house, authorised by senior management	50%	3 years
<b>Bonds issued by a financial institution that is</b>	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as	Yes	Yes	AAA / government guaranteed	No	External cash fund manager, subject to the	80%	3 years




<b>guaranteed by the United Kingdom Government</b>	gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.					management agreement		
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Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
<b>Bonds issued by multilateral development banks</b>	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity). (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA or government guaranteed	No	External cash fund manager , subject to the management agreement	80%	3 years

- \* **The prohibition on the use of derivatives** : This prohibition effectively relies on the judgement of the House of Lords in the case of Hazell v The Council of the London Borough of Hammersmith and Fulham and Others in 1991. Their Lordships held that local authorities have no power to enter into interest rate swaps and similar instruments.

Our treasury adviser, Arlingclose, believes that as this ruling still stands and was not rescinded by the introduction of the Local Government Act 2003, local authorities do not have the power to use derivative instruments.

	<p style="text-align: center;"><b>Audit Committee</b> 22 February 2011</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
y	Wards Affected: ALL
<b>3<sup>rd</sup> Internal Audit Progress Report 2010/11</b>	

## 1. Summary

- 1.1. This report sets out a summary of the work of Internal Audit for the period 1<sup>st</sup> April 2010 to 31 January 2011. The attached report provides further details of this together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since November 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 January 2011, a total of 768 audit days had been delivered against the overall Plan, made up of 600 Deloitte days and 168 in-house days. This represents 63% of the Plan.
- 3.3. Although, by the end of January 2011, only 64% of the plan had been delivered, the team are on target to complete 98% of the agreed plan by the end of March 2011. A number of major financial systems audits which form a significant element of our planned audit work are currently in progress and these will be completed before the end of March 2011. These audits were delayed until the 4<sup>th</sup> quarter in order for our sample testing to cover a significant proportion of the accounting period and hence also satisfy the Audit Commissions assurance needs. In addition, because the Plan was aligned to

many developments taking place as part of the one Council programme, a further key factor in determining the timing of our audit work was the status of implementation of some of these developments.

- 3.4. A more detailed summary of progress and key findings from our work is provided in appendix 1. This summary includes, for the first time, management responses to priority one recommendations for limited assurance reports.

#### **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 AND CORPORATE RESOURCES – INTERNAL AUDIT PLAN FOR 2010-10, *Audit Committee – 3<sup>rd</sup> March 2010.*
2. REPORT FROM DIRECTOR OF FINANCE AND CORPORATE SERVICES – 2<sup>nd</sup> Internal Audit Progress Report for 2010/11 - *Audit Committee - 16<sup>th</sup> December 2010.*

#### **8. Contact Officer Details**

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

**Clive Heaphy**  
**Director of Finance and Corporate Services**



**Internal Audit  
Progress Report 2010/11  
London Borough of Brent  
February 2011**

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## Executive Summary

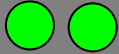



<b>Introduction</b>	<p>This report sets out a summary of the work completed against the 2010/11 Internal Audit Plan for the financial year to date.</p> <p>In the report we provide a summary of the main findings from each audit together with the assurance ratings for each one. Please note that this summary 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>
<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 January 2011, a total of 768 days had been delivered against the overall Plan, made up of 600 Deloitte PSIA days and 168 in-house days. This represents 64% of the Plan.</p>
<b>Summary of Work Undertaken</b>	<p>A number of systems audits have been completed and are in progress across the Council. In the last Committee meeting we reported that, 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 and Reablement which form a key part of the Adult Social Care Transformation Programme. We are now in the process of undertaking audits of the new key financial systems, and findings from these will be reported in the next Committee meeting.</p> <p>A range of computer audits have also been undertaken, including in relation to the migration to the single accounting system, both pre and post migration.</p> <p>The final key area of work has been in relation to the schools. At the time of last Committee meeting we reported that the draft reports and FMSiS assessment outcomes for secondary schools were on hold whilst the issues regarding leasing arrangements were investigated. On 15 November, the Government announced the decision to end the Financial Management Standard in Schools (FMSiS) programme with immediate effect. Draft Reports were subsequently issued to the schools, with an assurance opinion and recommendations relating to all areas of control weakness identified across both the FMSiS</p>

assessment and the wider audit. Key areas of weakness generally relate to compliance with the Financial Regulations around high value procurement and leasing arrangements.




With regards to the ending of the FMSiS, a new assessment process is now due to be introduced, although details of this have yet to be announced. Going forward, we will proceed with our scheduled school visits but will focus on the internal audit programme with extended coverage in some areas. We are now rolling out our works to primary schools with approximately 15 to be covered under 2010/11 plan and the remainder in the subsequent plans.

**Summary of Assurance Opinions and Direction of Travel**

Assurance Opinions

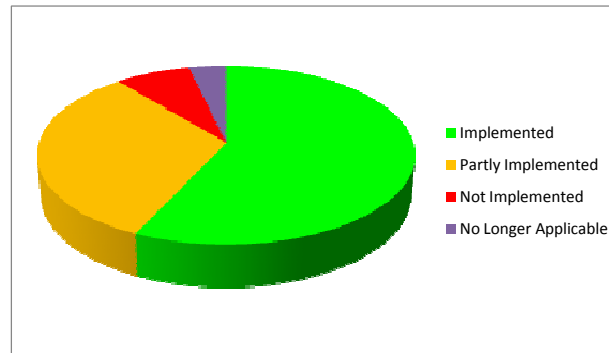
	Full 	Substantial 	Limited 	None 
<b>2008/09</b>	-	78% (21)	22% (6)	-
<b>2009/10</b>	-	61% (25)	39% (16)	-
<b>2010/11</b>	-	67% (10)	33% (5)	-

Direction of Travel

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

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.



**Follow-Up of  
Previously Raised  
Recommendations****Implementation of Recommendations**

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

The current level of implementation is as per the chart above. Overall, this is considered positive given that, of the recommendations followed-up, 92% 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.

**Customer Satisfaction**

Satisfaction Ratings 1=Poor, 5= Excellent

Year	Average Overall Rating
2008/09	4.4
2009/10	4.1
2010/11 (to date)	4.7

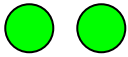



Nine completed questionnaires have been received to date in relation to the work undertaken by Internal Audit. This average is likely to fall once questionnaires have been returned by a number of schools.

## 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.

### 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.

### SUBSTANTIAL ASSURANCE REPORTS

Audit	Status as at 10 February 2011	Assurance Opinion
Service Planning and Performance Management	Final Report	
Mobile Device Security (IT)	Final Report	
Housing Repairs and Maintenance (BHP)	Final Report Reported separately to the BHP Audit & Finance Sub-Committee.	 

**LIMITED ASSURANCE REPORTS**

Debt Management	Management are already in the process of addressing a number of the gaps in controls and we have been provided with evidence in support of the actions being taken. This position should also be set in the context of the significant changes that are being made to the overall process in respect of the management of debt.	
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**Priority 1 Recommendations:**

Recommendation	Management Response/ (Responsible Officer/ Deadline)
<p>Management should liaise with the Oracle Development Team to ensure that the default payment period within Oracle is defined in accordance with the Council's policy of 30 days. Where necessary, alternative payment periods should be defined using the customer set up/update pro-forma.</p>	<p>Agreed. Default has now been set to 30 days. (Oracle Team/ Implemented)</p>
<p>SDRT management should liaise with Service Areas who do not currently use Oracle, to help ensure that interfaces with RMS/Oracle are developed and implemented following the completion of the Finance Modernisation Project.</p> <p>Until the interfaces are implemented, Service Areas should be monitored to ensure that they correctly communicate information relating to debtors on a monthly basis to the SDRT.</p> <p>For the outstanding debts that have not been recorded on Oracle from Libraries and Park Services, management should ensure that the process for collecting debts is formally agreed, including responsible officers and the method of recovery. These outstanding debts should be monitored to ensure that they are recovered in a timely manner.</p>	<p>Agreed.</p> <p>Discussions are being held with ASC to see what can be done to interface directly between framework-I or abacus and the debt management system. A member of staff now attends MGH house once a week to send out reminders, deal with payments and any general correspondence relating to ASC Debts. We are now able to identify the invoiced debt, amounts collected and amount written off from abacus, so these figures can now be included in the total council's debts. The SDRT attend regular meeting with Social Care to keep up to date on the status of their debt. There is no timescale for the interface to Oracle from framework-i. All units have been instructed that all invoices must be raised on Oracle and a standard interface has been designed so units can use it. Enforcement is not the remit of the FSC but the Service Area Business Partners. Year end will identify any units that are still not raising invoices on</p>

	Oracle. (SDRT/ Ongoing)
<p>Following the completion of the Finance Modernisation Project, approved write-off forms should be scanned onto the RMS.</p> <p>In addition, an authorised signatory list should be maintained by the SDRT and used to cross check the approval signatures. The signatory list should be updated on a periodic basis.</p>	<p>Agreed.</p> <p>As no write offs have been actioned on the system since the implementation of the FSC, the process now will be to scan all authorised write offs on the system. There will be one dedicated member of the debt recovery team who will monitor all write offs, from either receiving the request, actioning the request, updating a spreadsheet and scanning the documents.</p> <p>(FSC Debt Recovery/End February 2011)</p>
<p>The RMS should be updated so that all debts that have been written off are workflowed through to a 'written off stage'.</p> <p>Management should test the functionality of the RMS to determine recovery costs and consider the usefulness of this facility when progressing cases to legal action.</p> <p>Management should also request that an automated system control be developed within RMS to highlight write-off requests that have been authorised but not processed/written off. In addition, clarification should be sought in consultation with Service Areas over the value at which debts not collected through the RMS are considered uneconomical to recover.</p>	<p>Agreed.</p> <p>Once the coding structure has been defined from financial management, RMS will interface these codes and will automatically change the status on RMS to written off. As there will be one designated person assigned to writes off, they will be able to monitor the write offs. If a write off request is received from a unit, the designated officer will make check on the account to make sure that the request is accurate. The officer will look through the history to see what else may be required to either action further recovery on the account, or whether the request is correct and will process.</p> <p>(FSC Debt Recovery/ End February 2011)</p>


Contender System (IT)




**Priority 1 Recommendations:**

Recommendation	Management Response / (Responsible Officer/ Deadline)
<p>Formal Disaster Recovery and Business Continuity Plans should be documented and implemented for the Contender system. The Plans should include, though not be limited to the following:</p> <ul style="list-style-type: none"><li>○ Invocation and escalation procedures;</li><li>○ Alternative business continuity arrangements;</li><li>○ The anticipated time to recover the application (Recovery Time Objectives); and</li><li>○ Details of back-up tapes and their location.</li></ul> <p>Once implemented, the Plans should be subjected to annual review and testing.</p>	<p>Agreed. Disaster Recovery and Business Continuity Plans will be documented and implemented for the system, and annual review and testing will take place.</p> <p>(Business Support Manager / April 2011)</p>



Newman Cathilic College	<p>Eleven priority 1 and seventeen priority 2 recommendations were raised as a result of this audit. All priority one recommendations were agreed by the school.</p> <p>Many issues are common to schools and the internal audit team will produce a summary of common weaknesses and recommendations as part of the year end report.</p>	
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Budget Monitoring & Control (BHP)	<p>Final Report Reported separately to the BHP Audit &amp; Finance Sub-Committee</p>	
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Audits in progress

Audit	Status as at 10 February 2011
Reablement	Draft Report
Corporate Property Service Model	Draft Report
CRC Energy Efficiency Scheme	Draft Report
NNDR	Draft Report
Council Tax	Draft Report
Payroll	Draft Report
Treasury Management	Draft Report
Children's Centres Financial Management	Draft Report
Use of SEN in Children's Centres	Draft Report
SAS Data Migration (IT)	Draft Report
PC and Laptop Checks (IT)	Draft Report
Northgate Revenues & Benefits Application (IT)	Draft Report
IP Telephony	Draft Report
Interact (Payroll Application)	Draft Report
St Gregory's Science College	Draft Report
Kingsbury High School	Draft Report
Jewish Free School	Draft Report
Alperton Community School	Draft Report
Claremont High School	Draft Report
Wembley High Technology College	Draft Report

Audit	Status as at 10 February 2011
Convent of Jesus & Mary Language College	Draft Report
Queen Park Community School	Draft Report
Mount Stewart Infants School	Draft Report
Braintcroft Primary School	Draft Report
BHP – Recruitment	Draft Report
BHP – Rent Arrears	Draft Report
Establishments – Thematic Work	In Progress
Early Year Single Funding Formula	In Progress
Data Protection & Freedom of Information (FOI) (IT)	In Progress
Manhattan Property Management System (IT)	In Progress
Anti Virus Controls (IT)	In Progress
Network Infrastructure (IT)	In Progress
Direct Payments – Children Social Care	In Progress
Fostering & Adoption Payments	In Progress
Licensing	In Progress
Capital Budgeting	In Progress
Cash & Bank	In Progress
Accounts Payable (Creditors)	In Progress
Accounts Receivable (Debtors)	In Progress
General Ledger	In Progress
Housing Benefits	In Progress


Audit	Status as at 10 February 2011
Pensions Scheme Administration	In Progress
Libraries	In Progress
Kingsbury Green Primary School	In Progress
Oakington Manor School	In Progress
Christchurch School	In Progress
Harlesden School	In Progress
Malorees Infants School	In Progress
Our Lady of Lourdes	In Progress

## 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>
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	✉ <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
Mark Towler – General Manager	✉ <a href="mailto:phil.lawson@brent.gov.uk">phil.lawson@brent.gov.uk</a>
Phil Lawson – Sector Manager	☎ 020 8937 1493
Miyako Fujii – Senior Audit Manager	
Shahab Hussein – Computer Audit Sector Manager	

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 The logo of Brent Council, featuring a central coat of arms with a shield, a crown, and two lions, surrounded by the words 'BRENT COUNCIL' in a circular arrangement.	<p style="text-align: center;"><b>Audit Committee</b> 22 February 2011</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p><b>Audit Needs Assessment and Internal Audit Plan for 2011/12</b></p>	

## 1. Summary

- 1.1. This report sets out the approach being taken to undertake a formal Audit Needs Assessment ('ANA') across the Council, the output of which will be used to formulate the Annual Internal Audit Plan ('the Plan') for the 2011/12 financial year.
- 1.2. All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003 (as amended). The CIPFA Code of Practice on Internal Audit in Local Government requires the proper planning of audit work.
- 1.3. The completed ANA and proposed Plan will be presented for formal approval at the next scheduled meeting of the Audit Committee. As such, work against the Plan will need to commence from 1 April 2011. On this basis, it is proposed that the completed documents are circulated to members in March for comment.

## 2. Recommendations

- 2.1. The Audit Committee note the approach being taken to complete the Audit Needs Assessment and formulate the Annual Internal Audit Plan for the 2011/12 financial year

### 3. Detail

- 3.1. The Audit Committee is required to consider the strategic and annual audit plans, and consider the level of assurance these can give over the Council's corporate governance and risk management arrangements.
- 3.2. The Internal Audit service is delivered through a partnership between the Council's in-house Audit & Investigations Team ('the in-house team') and Deloitte & Touche Public Sector Internal Audit Limited ('Deloitte').
- 3.3. The work to be undertaken is determined on an annual basis through the formulation and agreement of the Plan. This sets out the total number of days of internal audit work to be delivered during the year, and the breakdown of these to individual audits across the Council.
- 3.4. Any area of the Council's operations are potentially subject to internal audit coverage. However, given resource constraints, not all areas can be audited on an annual basis, and this would not be expected in any organisation. The selection of audit areas is therefore determined on the basis of risk.
- 3.5. Risk is the key driver of all internal audit work, not simply in determining which areas to include in the Plan, but also then the specific elements to be covered within each individual audit. This aligns with Internal Audit's core role of providing an independent and objective assurance opinion on the adequacy and effectiveness of the systems of control operated by management in order to manage risk to the organisation.
- 3.6. 'Risk' is broadly defined as being something which threatens the achievement of an objective. When considering risks in relation to the achievement of objectives across the Council, it is therefore important to recognise that the range of potential risks is significant and diverse. Risks don't relate solely to financial systems, and hence the work of Internal Audit isn't focused solely on these areas.
- 3.7. In recent years, the Plan has been formulated on the basis of the following:
  - Internal Audit's own knowledge and understanding of key risk areas across the organisation. This is informed through their general understanding of the concept of risk; their knowledge of the Council's operations, as built up over many years; and their awareness and experience of risks being faced within other Local Authorities, as well as across the wider public sector;
  - Internal Audit's own knowledge and understanding of key developments taking place across the Council, and hence emerging risk areas; and



- Discussions with Directors and Assistant Directors across the Council, so as to clarify and add to the above.
- 3.8. The work of Internal Audit is, therefore, focused on key risk areas, be these in relation to established systems and areas of operation, or connected to new areas of development and transformation. This second aspect is significant. The concept and delivery of change can be a key driver of risk, and this has been of growing significance with changes in the external environment prompting the need for increased change internally.
- 3.9. For 2011/12, whilst the above steps will still be followed, given the increased levels of change that have been taking place and which will continue post March 2011, the approach to formulating the Plan is being further strengthened and formalised.
- 3.10. In order to help ensure that all key risk areas are identified, including new and emerging risks, the ANA for 2011/12 is being focused around the following set of internal and external risk factors:

Internal:

- Achievement of Objectives;
- Compliance with Legislation;
- Income/Expenditure;
- Changes to the Organisation; and
- Key Organisational Projects.

External:

- Economic;
  - Regulatory; and
  - Fraud Risk.
- 3.11. The above areas are inter-related, and changes in the external environment are likely to have an impact on the internal risk factors. This holistic approach is therefore considered to be robust. Change, however, is ongoing and hence it cannot be guaranteed that this exercise will necessarily anticipate and identify all future emerging risks. This has always been the case, hence why the Plan is accepted as being a flexible document which is reviewed throughout the course of the year, with amendments made to the areas of coverage, as appropriate.

- 3.12. The above risk factors are detailed further in Appendix 1. Currently, the Internal Audit team are undertaking an initial assessment against these, on the basis of their own knowledge and understanding of the Council's operations and developments taking place across Local Government, together with the various changes taking place internally as part of the One Council Programme. They are also attending DMT meetings to seek further input from Directors and Assistant Directors. These meetings are taking place in the two weeks commencing 21 and 28 February 2011. Given this, it has not been possible to complete the exercise prior to this Committee meeting.
- 3.13. The output from the process will be nine tables, one at corporate level and one for each of the Service Areas, documenting the assessment against each of the above risk factors. These will then be used to formulate the Plan, with each audit referenced back to the specific risk factors that have determined its inclusion.
- 3.14. As per 1.3 above, work against the Plan will need to commence from 1 April 2011. The intention is therefore to complete the ANA promptly following the scheduled DMT meetings, and then draft the Plan for circulation to members for comment prior to the end of March. Formal presentation and approval of the document will then take place at the next scheduled Committee meeting.
- 3.15. Two final points to note are as follows:
- As in previous years, Internal Audit will liaise with the Audit Commission regarding the content of the Plan. This allows for a further input of knowledge with regards to key risk areas, as well as helping to ensure that the work of each is co-ordinated, thereby helping to avoid both gaps and duplication in coverage; and
  - Given the need to focus on risk, as well as the outlined elements of the ANA process, the Plan should also be linked to an organisations risk management framework. Developments in this area are currently also being taken forward by the Head of Audit & Investigations. As such, these are being undertaken alongside the ANA process and hence it will be ensured that the two are consistent. Once the new risk management arrangements have been embedded, as part of the ongoing in-year review of the Plan, amendments to areas of coverage will be made as appropriate.

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

- 4.1. None

## **5. Legal Implications**

5.1. None

## **6. Diversity Implications**

6.1. None

## **7. Background Papers**

7.1. None

## **8. Contact Officer Details**

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Telephone – 020 8937 1260

**Clive Heaphy**  
**Director of Finance and Corporate Services**

## APPENDIX 1

### Risk Factors

Internal Risk Factors	
<b>Achievement of Objectives</b>	<i>Key to the role of Internal Audit is providing reasonable assurance that the control systems will achieve their objectives. In terms of determining audit coverage, a key consideration is therefore the priority of the area in working towards the overall objectives of the organisation.</i>
<b>Compliance with legislation</b>	<i>A primary role of Internal Audit is in ensuring that systems and processes comply with relevant legislation and standards, internal and external.</i>
<b>Income/ Expenditure</b>	<i>In terms of allocating scarce resources, it is key that the significance of the individual area to the overall financial position of the organisation is taken into consideration. Areas of significant income and expenditure may also be required to be subject to internal audit coverage as part of the work with External Audit.</i>
<b>Changes to the organisation</b>	<i>For significant changes to the way in which the organisation operates there is an increase in risk to delivery of systems to meet their objectives, potentially also impacting upon people and their effectiveness. Internal Audit can play a key role in this area through assessing the adequacy of proposed changes and assessing the risk implications of the new control systems.</i>
<b>Key Organisational Projects</b>	<i>Providing assurance regarding the systems in place to deliver key projects helps to ensure that resources are being utilised effectively. In addition, Internal Audit may perform a role in respect of providing risk and control advice throughout the duration of the project.</i>
External Risk Factors	
<b>Economic</b>	<i>The wider economic environment and the implications for the area subject to audit are key to the determination of the relative need for assurance within the area. The current economic climate has implications for all aspects of the organisation's operations, including income collection and funding cuts</i>
<b>Regulatory</b>	<i>As the regulatory environment changes the audit coverage needs to both consider and adjust to the requirements on a continuous basis.</i>
<b>Fraud Risk</b>	<i>Within the current economic climate it is recognised that there is potential for fraud to significantly increase, this may be by staff or parties external to the organisation. Internal changes can also increase fraud risk. Reflecting internal audit work to areas of potential fraudulent activity contributes to the management of fraud risk.</i>