



# **LONDON BOROUGH OF BRENT**

## **MINUTES OF THE AUDIT COMMITTEE Thursday, 15 December 2011 at 7.30 pm**

PRESENT: Stephen Stephen Wood (Chair) and Councillors Al-Ebadi and Ashraf and Harrison (alternate for Councillor Van Kalwala).

An apology for absence was received from: Councillor Van Kalwala

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

None declared.

### **2. Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 22 September 2011 be approved as an accurate record of the meeting.

### **3. Matters arising**

None.

### **4. Statement of accounts 2010/11 and Annual governance reports**

Clive Heaphy (Director of Finance and Corporate Services) introduced the item and confirmed that the Audit Commission had issued an unqualified audit opinion of the accounts, a key achievement for the council. It had been anticipated that the year would be particularly challenging due to the migration of financial information from multiple disparate systems into a single Oracle system, fundamental structural changes and the transition of accounting statements to comply with International Financial Reporting Standards (IFRS). These changes had contributed to the accounts being submitted after the 30 September 2011 deadline and a number of lessons had been learnt during the process. Clive Heaphy thanked the Audit Commission for their work and their cooperation with the Council and with Finance staff.

Andrea White (District Auditor, Audit Commission) then presented the Audit Commission report. She confirmed that Members had the finalised report before them following the submission of the interim report to the committee on 22 September. Starting with financial statements, Andrea White referred to the key messages in the report which included some significant weaknesses in internal control, the identification of five material errors and a further 26 non material errors.

However, the accounts were given an unqualified audit opinion as all material errors had been amended. Andrea White emphasised the need to ensure that the weaknesses identified were rectified for the next year and subsequent years and she acknowledged that the year had been especially challenging for the council.

The committee then discussed the financial statements aspect of the Audit Commission report. The Chair sought further comments in respect of the statement of accounts for 2010/11 being submitted after the deadline and he acknowledged that 28 other local authorities had also done so. With regard to the Action Plan, he enquired how the recommendations would be owned, implemented and monitored. In respect of recommendations 7-10 in the Action Plan, he commented that as the underlying causes to the issues that had been raised had now been removed, he sought confirmation that it should be relatively straightforward to implement these recommendations. With regard to the 'trading' that had previously existed between the council departments, the Chair sought confirmation that this had now been completely extinguished. Turning to IFRS, the Chair sought reassurance that staff would receive sufficient training to undertake this.

Councillor Ashraf acknowledged the importance in achieving an unqualified audit opinion in respect of the accounts. In respect of the weaknesses identified concerning internal controls, he commented on the role that fundamental structural changes and staff reductions had played and sought further views with regard to centralising of finances. Councillor Ashraf asked what changes had been made in the way reconciliation would be undertaken. He also sought more information on staff training and development in respect of IFRS and new ways of working.

In reply to the issues raised, Andrea White confirmed that the council had been publically named as one of the local authorities that had published their audited statement of accounts after the 30 September deadline. With regard to the changes to structure, she commented that there would be significant pressure on the Central Finance Team and that it was important that the Team received the necessary support to fulfil its functions. The Audit Commission could also play a role in providing staff training and some workshops were due to be held in January 2012. Presentations by the Audit Commission on accounting were also available to council staff.

Clive Heaphy advised Members that the council's financial systems had previously been highly decentralised which contributed to a number of errors being made. However, fundamental changes had since been made to provide financial management on one platform and the change to IFRS was needed for the challenges that the council now faced. It was essential that the Action Plan was delivered to ensure the improvements needed. Audit tasks had also been previously carried out by individual service areas, however this too had now been centralised and was undertaken on a monthly basis. Clive Heaphy stressed the importance of the role in project planning and officers would be given target deadlines in advance, which if not met, would be addressed immediately. He confirmed that the appropriate workshops would be given to provide staff with the necessary skills. Clive Heaphy advised that it was possible that an external organisation would be appointed to undertake a critical evaluation on a monthly basis.

Mick Bowden (Deputy Director – Finance, Finance and Corporate Services) then responded to questions concerning the Action Plan. Turning to recommendations 8, 9 and 10 first, he explained that a significant piece of work had been undertaken with regard to centralising financial systems and there had been a number of residuals outstanding in respect of the 'migrated balance'. However, the preparatory work had finished and recommendation 8, for example, would be achieved by 19 December. Recommendation 9 would involve a time consuming process involving system reconciliation. However as of 14 December, only £7 arrears remained and the recommendation would be swiftly implemented. Members noted that all trading between service areas had ceased and ledger journals were solely used now. Recommendation 7 would also involve monthly checks and would be reported to the council's Strategic Finance Group. Reconciliation was now undertaken in a completely different way, with two of the council's three bank accounts fully automated, however the largest one remained partially automated for now. It was noted that most bank accounts now operate under the Oracle accounting system and the remainder are being brought on board. Mick Bowden advised that a lot of the changes were being done in parallel and the starting point for these would be 1 April 2012, with a review of the 2011/12 accounts commencing early in the new financial year and initial feedback would be provided at the next meeting.

The committee agreed to monitor progress on how the recommendations of the Action Plan were being implemented over the next three meetings.

Members noted that there were no significant issues outstanding with regard to the Audit Commission's report on the Brent Pension Fund.

In reply to a query from the Chair concerning the Annual Governance Statement, Clive Heaphy advised that there had been some minor amendments with regard to some teachers' pay.

RESOLVED:-

- (i) that the final Annual Governance Reports from the Audit Commission and the council's Action Plan be noted;
- (ii) that the final Annual Governance Statement be noted; and
- (iii) that progress on how the recommendations of the council's Action Plan are being implemented be monitored over the next three meetings.

## **5. Audit commission progress report**

Andrea White introduced the report and circulated recommendations that the Audit Commission was making to local authorities as a result of the report's findings. The report was a result of surveys undertaken of all local authorities by the Audit Commission and had been completed by the relevant auditors. The committee noted the Annual Audit Commission Letter which would also be presented to the Executive.

Councillor Al-Ebadi spoke of the need to ensure that there was appropriate consideration of legal implications and cited the legal fees resulting from the libraries transformation project court appeals as an example.

In response, Clive Heaphy explained that the legal fees were a one-off cost and the council would be able to make year on year savings as a result of being able to implement the libraries transformation project as a result of the courts' decisions. He added that the council's reserves currently stood at around £7.5m, however the council was on target to increase its reserves to £9.7m this year and it was planned that the reserves would increase to the London boroughs average of around £12m by 2013/14 at the latest.

The Chair requested that the Audit Commission's recommendations also be passed to the Budget and Finance Overview and Scrutiny Committee.

RESOLVED:-

that the contents of the progress report be noted.

#### **6. Treasury 2011/12 Mid year report**

Mick Bowden introduced the report and began by commenting on the Eurozone crisis and the impact this was having on the markets. Members heard that interbank lending was back to 2000 levels, however every effort had made to ensure the council's financial position was as safe and secure as possible. Mick Bowden confirmed that the council had secured preferred creditor status in respect of its deposits with Glitnir Bank and was due to receive between 86-90% return of the deposit. It was noted that there was increasing use of the Government's Debt Management Office, which although offered the safest prospect of return, also yielded the lowest interest rate returns. With regard to changes to the Housing Revenue Account (HRA), the overall impact was intended to be neutral for the General Fund and in future HRA debt would be accounted separately from General Fund debt, leading to amended accounting arrangements.

RESOLVED:-

that the treasury 2011/12 mid-year report be noted.

#### **7. Brent Housing Partnership audit plan 2011/12**

Simon Lane (Head of Audit and Investigations, Finance and Corporate Services) presented the report which outlined the final internal audit plan for Brent Housing Partnership (BHP) for 2011/12. He advised that the total number of days had increased to 152 due to investigations needing to be undertaken with regard to some out of borough purchases made by BHP.

In reply to a query from the Chair, Simon Lane advised that work on developing the BHP internal audit plan had commenced in March.

RESOLVED:-

that the report on the Brent Housing Partnership audit plan 2011/12 be noted.

## 8. Internal audit progress report 2011/12

Simon Lane introduced the report and drew Members' attention to the summary of assurance opinions and direction of travel as set out in page 161 of the report. The plan was on track and the previously raised recommendations were being followed-up. The committee noted the limited assurances that had been given and the responses to these as set out in the report. Simon Lane then turned to the nil assurance report and explained that there had been major issues relating to Curzon Crescent Nursery and Children's Centre which involved changes to headteachers. Aina Uduehi (Audit Manager, Finance and Corporate Services) added that there had been three changes of headteachers in four years and control mechanisms had not been working properly, whilst recommendations had also failed to be implemented. However, the new headteacher was adopting a federated arrangement and seemed willing to undertake the recommendations.

The Chair focused on the cases that had received limited assurances and with regard to the Framework-i casework module, he asked why team responsibility as opposed to an individual had been given and he also sought comments in view that the Team Manager had suggested that there were no problems. Turning to Project and Programme Management, he advised that a specific deadline date for implementation of the recommendations should be set. The Chair asked for more information on the Project Management Framework and how did this relate to Project and Programme Management and stated that the principles should be the same, particularly as both shared capital elements. He also commented that there needed to be agreement at Corporate level on the approach to audit issues and that this should then be applied across the whole of the council.

Councillor Ashraf added that some of the recommendations should encourage more standardisation with regard to complying with audit requirements and that efforts should be made to explain across the whole of the council the reasons for the changes and the move to centralisation and the benefits to the council as a result.

Andrea White enquired whether the recommendations in respect of Project and Programme Management varied from what was already being undertaken. She also commented that there had been some recommendations that appeared to have not been progressed to any great extent.

In reply to the issues raised, Phil Lawson (Deloitte) agreed to follow up the Chair's suggestion that a specific officer should be responsible with regard to implementing the recommendations in relation to Framework-i casework module. He explained that the manager concerned had been aware of the problems which were largely related to back dated payments, however the Team had been asked to report back to Clive Heaphy on progress. It was noted that no overpayments had been identified. With regard to Project and Programme Management, Phil Lawson advised that the recommendation had also requested immediate implementation and it was this that was being pursued, however as it was also a major project there would also be on-going monitoring. There had also been staff changes at senior management level which had impacted upon the project, however a new officer would be monitoring this project by the end of March 2012. The Project Management Framework was new and although some issues had initially arisen, these had been addressed and the framework was robust. Consideration was now

being given as to how the project would be rolled out across the council. It was presently focusing on capital projects, however its scope would be widened in future. Phil Lawson acknowledged that the changes being made across the council were considerable and would represent big changes in particular for schools.

Clive Heaphy advised the committee that the creation of the Regeneration and Major Projects department meant there was a need for it to report to the Capital Projects Portfolio Board and was subject to high level scrutiny. He also acknowledged the need to join up skills in relation to the projects.

RESOLVED:-

that the report on the progress made in achieving the 2011/12 internal audit plan be noted.

## **9. Risk management policy**

Simon Lane introduced this item and advised that the previous risk management policy had been rendered impracticable after the IT tools used had been decommissioned. The report before committee had been delayed to allow for further consultation across the council and changes had been made in respect of how the policy would be rolled out. The policy would be championed by the Corporate Management Team and the Audit Team's role would include consolidating the risks involved and to report findings to the committee. Risks had been identified under various categories with the help of Deloitte and discussions with DMTs. Simon Lane stated that it was intended to provide further details in respect of the Corporate Strategic Risk and report this back at the next meeting. The committee noted that the responsibility for developing and re-engineering risk management had been transferred from the Procurement and Risk Management Team to the Head of Audit and Investigations, however no additional resources had been allocated to Audit and Investigations for this and nor was there any spare capacity. The report set out the proposed mechanism for identifying and monitoring risks across the council. Aina Uduehi added that guidance with regard to risk management policy was also being rolled out.

Andrea White added that the report followed up on the previous Annual Audit Commission letter highlighting the need to embed risk management as a key area to address. With regard to there being no additional resources, she enquired what steps were being taken to ensure the risk management policy could be embedded. In noting that the policy would be reviewed by the Audit Committee annually, Andrea White enquired what steps were being taken in between.

During discussion by Members, Councillor Ashraf commented that clarification was needed with regard to who was responsible for overseeing a particular risk and how it would be monitored. He suggested that a risk register table be produced providing a brief summary of each risk and who were responsible for it. Councillor Al-Ebadi stressed that risk management was a big issue and of particular interest was the move to the Civic Centre. He suggested that there be details of the risk assessment with regard to the Civic Centre at the next meeting.

The Chair also acknowledged that resources were an issue and noted that this could be a potential risk to the policy itself. He also commented that there did not

appear to be high level Member involvement and suggested that the policy should also be monitored by the Executive, whilst major projects would also present risks. The Chair commented that the risk management policy report had also been delayed when previously reported to the committee and he sought assurances that it was seen as high priority. Whilst the Audit Committee could monitor the risk register, the Chair stressed the importance that the right staff was managing these risks and he requested that the policy be amended to reflect this. He requested that the committee be kept informed of updates to the departmental risk register, including what risks existed and also consideration be given as to how often it should be reported to committee.

In reply to the issues raised, Simon Lane referred the committee to page 197 in the report which outlined how the risk management policy would be monitored, including the role of the Audit Committee which would approve and monitor the risk management strategy and risk registers. It also set out the responsibilities of the Corporate Management Team, departmental managers, service managers, heads of service, Project Management Office, Strategy Partnerships and Improvement department and the Audit and Investigations Team. In addition, an annual report on the effectiveness of the risk management policy would be presented to the Audit Committee. Each identified risk had a risk owner, however if any particular risk became of greater concern, it would be reported to the Corporate Management Team. Every effort would be made to minimise the impact with regard to resource limitations and assistance was also being given on this matter by the Improvement Team. It was anticipated that the necessary training would also be undertaken before the end of the financial year.

Clive Heaphy advised that a tick box approach could not be taken towards risk management and that it required careful consideration, meaningful assessment and proper ownership and to be properly embedded. With regard to the move to the Civic Centre, a comprehensive project addressed this under the One Council Programme, however he suggested information on risk issues on this could be presented at the next meeting. He added that as the move to the Civic Centre project was initiated prior to the risk management policy, there was no standardisation as such between the two. Clive Heaphy acknowledged that the Audit Committee needed to be informed of the key issues in order to assist their monitoring and decision-making roles.

The Chair indicated that progress on risk management policy was needed. He clarified that a report on the Corporate and departmental risk register would be reported back to the next meeting and in addition the risks with regard to the move to the Civic Centre would also be reported. The Audit Committee's role with regard to monitoring the risk management strategy and risk registers and in approving the strategy was acknowledged. At member level however, overall ownership would exist with the Executive.

#### RESOLVED:-

- (i) that the proposed risk management policy and strategy as set out in appendix one be agreed; and
- (ii) that a report on the Corporate and departmental register and on the risks of the move to the Civic Centre be presented at the next meeting.

**10. Use of surveillance and chis 2010/11**

Simon Lane introduced the report and drew Members' attention to surveillance activity carried out by the council as set out in paragraph 3.13 of the report. It was noted that Trading Standards continued to be the main users of surveillance.

Councillor Ashraf sought an update with regard to the progress of the Government's RIPA review. Councillor Harrison asked if surveillance was being used in respect of traffic issues such as parking.

In reply, Simon Lane advised that the RIPA review had not yet been enacted as it was going through the committee stage at the House of Lords. The previous RIPA review had been initiated in response to negative publicity in the use of surveillance by local authorities and in particular with regard to a case involving Poole Council who had used surveillance to determine whether a family had misrepresented their permanent address in respect of a school admission application. Subsequently, the use of surveillance by local authorities had become increasingly bureaucratic and it was likely that it would be even more so once the recommendations of the present RIPA review were agreed. Simon Lane advised that surveillance for a specific purpose could only effectively be used by local authorities where it was suspected that a criminal offence was to be committed that would attract a custodial prison sentence of at least six months. This did not affect general use of CCTV, however, and this could be used as evidence for traffic issues such as parking if CCTV already existed at the location in question. In reply to Councillor Harrison's observation that anti-social behaviour did not usually attract a six month prison sentence, Simon Lane acknowledged that this was a major issue, however legal avenues were being explored with regard to the possibility of pursuing prosecutions in such cases.

RESOLVED:-

that the use of surveillance and chis 2010/11 report be noted.

**11. Any other urgent business**

None.

**12. Date of next meeting**

It was noted that the next meeting of the Audit Committee was scheduled to take place on Wednesday, 22 February 2011 at 7.30 pm.

The meeting closed at 9.20 pm

S WOOD  
Chair