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Audit Committee

Thursday, 15 December 2011 at 7.30 pm
Committee Room 4, Brent Town Hall, Forty Lane, Wembley, HA9 9HD

Membership:

Members Councillors:	**first alternates** Councillors:	**second alternates** Councillors:
Wood (Chair)		
Al-Ebadi	S Choudhary	Beckman
Ashraf	Green	Cummins
Van Kalwala	Harrison	Hector

For further information contact: Joe Kwateng, Democratic Services Officer
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The press and public are welcome to attend this meeting

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Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item		Page
1	**Declarations of personal and prejudicial interests**	
	Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2	**Deputations**	
3	**Minutes of the previous meeting**	1 - 8
4	**Matters arising**	
5	**Statement of accounts 2010/11 and Annual governance reports**	9 - 116

At its meeting on 22 September 2011 the Committee approved the statement of accounts for publication. It also considered the draft Annual Governance Reports produced by the Audit Commission and the Council's Annual Governance Statement. Following the completion of the audit of the accounts this report presents the final versions of the reports for the Committee. An action plan to address the recommendations raised by the Audit Commission is also set out in the final Annual Governance Report.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

6	**Audit commission progress report**	117 - 138

This report presents the Audit Commission's progress report for 2010/11.

Representatives of the Audit Commission will present the report.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

7 Treasury 2011/12 Mid year report 139 - 142

This report updates members on recent treasury activity.

Ward affected:	**Contact Officer***:* Martin Spriggs, Exchequer and Investment
All Wards	Tel: 020 8937 1472 martin.spriggs@brent.gov.uk

8 Brent Housing Partnership audit plan 2011/12 143 - 154

This report advises the Audit Committee of the final Internal Audit Plan for the Brent Housing Partnership (BHP) for 2011/12. The plan was presented to the BHP Audit & Finance Sub-Committee in July 2011. The Brent Housing Partnership is an Arms' Length Management Organisation which is limited by guarantee, wholly owned by the Council and is responsible for managing Council's housing stock.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

9 Internal audit progress report 2011/12 155 - 184

This report sets out a summary of the work of internal Audit for the period from 1 April 2011 to 30 November 2011. The report also provides further details of the work together with the assurance ratings and priority 1 recommendations for limited and nil assurance reports and management responses for those audits for which final reports have been issued since August 2011.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

10 Risk management policy 185 - 204

This report sets out proposals for the development of risk management across the council.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

11 Use of surveillance and chis 2010/11 205 - 210

The purpose of this report is to advise members on the council's use of covert surveillance and covert human intelligence sources (CHIS) for 2010/11 and the period April 2011 to November 2011.

Ward affected:	**Contact Officer***:* Clive Heaphy, Director of Finance and Corporate Services
All Wards	Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

12 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.

13 Date of next meeting

The next scheduled meeting of the Audit Committee is scheduled to be held on Wednesday, 22 February 2012 at 7:30pm.

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, 22 September 2011 at 7.30 pm

PRESENT: Mr Wood (Chair) and Councillors Al-Ebadi and Van Kalwala

Also Present: Councillors Butt, Cheese and S Choudhary

Apologies were received from: Councillor Ashraf.

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 15 June 2011 be approved as an accurate record of the meeting subject to "Councillor Butt" being shown as in attendance.

4. **Matters arising**

   Key management risk and risk management strategy

   Clive Heaphy, Director of Finance and Corporate services informed the Committee that the report on key management risk and risk management strategy would be submitted to the Corporate Management Team (CMT) before being brought to this Committee. Consequently, the report would be put on the agenda for the next meeting.

5. **Statement of Accounts 2010/11 and Annual Governance Reports**

   Andre White (District Auditor), Paul Viljoen and Jonathan Ware (Auditor Managers) were in attendance.

   The Committee gave consideration to a report produced by the Audit Commission, the Council's external auditors, based on the audit of accounts. The report was intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. A separate Annual

Governance Report produced for the Pension Fund accounts was also on the agendas for consideration.

Clive Heaphy, Director of Finance and Corporate Services introduced the report. He set out a number of reasons why the process for producing the statement of accounts for 2010/11 had been considerably more complex than in previous years.

Firstly, the fundamental change in the Council's financial processes which required a migration of financial information from multiple disparate systems previously in place to a single Council-wide system. In addition, the Finance Modernisation project resulted in a significant reduction in team numbers and a fundamental shift away from producing accounts locally in directorates to production via a central team.

Further, during 2010/11 the Council completed the mandatory transition of its accounting statements to comply with International Financial Reporting Standards (IFRS) which govern the way financial transactions were brought into account and how they were reported. The transition had affected both the appearance of the Council's accounts and reported balances.

He continued that whilst the timetable for the production and audit of accounts was tight than in any normal year, the combination of all of the above factors made the 2010/11 process particularly problematic. He was quite confident that the investment in time and effort now would enable significant improvements to be achieved in future with consequent reductions in audit fees. The Director continued that he formally approved the draft Statement of Accounts in line with the Accounts and Audit Regulations on 30 June 2011, prior to the start of the audit.

The Director informed the Committee about a post balance sheet event resulting from Brent Housing Partnership's (BHP) involvement in settled homes initiative. Although there would be no impact on the Council, the Director had provided BHP's auditors with assurances of the Council's support for BHP.

Mick Bowden, Deputy Director of Finance and Corporate Services gave an analysis of the key figures in the accounts and highlighted the significant changes in the balance sheet.

In welcoming the report, members expressed a view that the accounts and the statements were informative and paid tribute to the Director and his team for the sterling efforts made in presenting the accounts and statements. The Chair added that officers should consider submitting a shorter, more reader friendly version of the accounts in addition to the mandatory statements, to future meetings of the Committee.

Andrea White, District Auditor (DA) in providing a summary of her findings on the audit of the Pension Fund accounts stated that subject to the completion of her final review and audit closure, her audit was substantially complete. She proposed to give an unqualified audit opinion on the financial statements but would not issue her opinion until the audit of the Council's main financial statements had been completed as the Pension Fund statements formed part of the Council's financial statements.

The DA continued that the draft financial statements were submitted by the due date, were substantially complete and supported by good working papers in line with expectations. She added that despite the teething problems from the introduction of the Oracle system, the migration of balances to the new system was well controlled. In her view, the financial statements submitted for audit were free from material error, missing and incomplete disclosures had been adjusted by officers and overall, she had not identified ant significant weaknesses in the pension fund internal controls. The DA stated that there were no material differences to the pension fund financial statements on the transition to IFRS and that she was satisfied that the pension fund financial statements had been properly compiled according to IFRS.

The District Auditor continued that the transition and migration problems experienced by Brent were a problem common to finance departments in many local authorities. She clarified that the audit trail was taking significantly longer than anticipated and due to delays, overly complex audit trails and a resultant high volume of audit queries and amendments. She continued that her audit of the council's accounts had identified six material errors in the financial statements and a significant number of non-trivial and non-material errors which the Director and his team were actively working on to resolve them. In view of that the District Auditor stated that she would not be in a position to issue her audit opinion of the council's accounts by the due date of 30 September 2011. The DA also added that she would want to complete the remainder of the council's accounts audit before issuing her opinion on value for money.

With reference to paragraph 15 of the AGR, the DA amended the areas of audit work to take account of progress made but emphasised that the following two key areas were outstanding; cash and bank; final review and closing procedures. She also asked for the following three errors to be added;

Classification error	£9m
Provision for redundancy	£2m
Internal debtors and creditors	£1m

The Director of Finance in responding to the above stated that redundancy payments had been budgeted for and that an adequate provision had been made in the reserves. He tabled an amendment to the recommendations which was later agreed.

Councillor Cheese noted the significant weaknesses in internal control identified by the auditor brought about by the introduction of the new systems and asked whether the systems were trialled for effectiveness. Councillor Al-Ebadi noted that the latest reconciliation provided to audit had reduced the gross outstanding amount and wondered whether officers could complete this by October when the audited accounts were due to be published.

Mick Bowden, Deputy Director in response stated that the new system was trialled and working effectively. The issues related to the migration of information previously held in different disparate systems. He added that having dealt with the transition the current system enabled monthly reconciliations and close downs and therefore timely presentation of accounts in the future. He continued that Audit Commission were aiming for the majority of the field work to be completed by the end of the month. In response to non-trivial and non-material issues which Paul

Viljoen stated were not amended by the Council, the Deputy Director stated that those matters were agreed with the Audit Commission as not requiring adjustment and not impacting upon the financial position of the Council.

In bringing the discussion to a close, the Chair welcomed the progress made by the Council in the light of the problems resulting from the changes made. He however requested that management action plan against the DA's recommendations and the Annual Governance Report be reported to the next meeting of the Committee. He asked about the measures that the Internal Audit could take to assist with the situation. Simon Lane Head of Audit and Investigations stated that he would bring forward some of the work being done including bank and reconciliations, move resources to key financial work and benchmark with other local authorities. The Chair noted that the unaudited accounts would be published by 30 September 2011 and subject to final information being submitted to the DA by mid-October the final audited accounts would be published. With that in view members;

RESOLVED:-

(i) that the Annual Governance reports from the Audit Commission and the letters of representation to the Audit Commission be noted;

(ii) that the Statement of Accounts be approved for publication subject to an adjustment of £1.939m in respect of redundancy costs for which provision is contained within the 2011/12 budget subject to (iii) below;

(iii) that if there were any further minor changes to the accounts or audit recommendations, the Chair would have delegated authority to agree and request members of audit committee be notified accordingly.

6. **2011 Treasury annual report**

Mick Bowden, Deputy Director of Finance and Corporate Services introduced the report which provided information to members on borrowing and investment activity, and performance compared to prudential indicators during 2010/11. The recommendations of the report which were submitted to Full Council without any further comments were also being reported to this Committee as part of the scrutiny function required under the 2009 Treasury Management Code of Practice issued by CIPFA.

The Deputy Director gave an outline of the economic and market background during 2010/1 including quantitative easing (QE), the movement of interest rates and the potential impact of defaults by Ireland, Portugal and Greece on European banks and the euro. He then drew members' attention to the level of rates charged by the Public Works Loan Board (PWLB) and borrowing activity and added that as a result of debt re-structuring, the Council was able to save around £1.5m per annum. He also drew attention to the appendices to the report that set out the Council's current outstanding loans together with yields and maturity dates.

RESOLVED:-

that the treasury management annual report and recent treasury activity be noted.

7. **Audit Commission Progress Report**

The purpose of the progress was to brief members of the Committee on work currently being planned or undertaken by the Audit Commission. Andrea White, District Auditor in introducing the report stated that the Commission had finalised their interim report and agreed with officers an action plan which was attached to the progress report.

She advised members that she had finalised her performance review detailed in the Audit plan including a follow up review of the Council's One Council Project and summarised the key findings as follows;

- Good progress had been made on the One Council Project with effective governance arrangements in place.
- Risks existed in regards to capacity, accurate monitoring of financial benefits, transparency of revisions to financial projections and a systematic way to capture non-financial benefits at project level.

The District Auditor continued that in line with her statutory duties, she was also focussing on the following matters which had come to her attention during the course of her audit;

- Issues relating to the Council's arrangements over blue badge usage, enforcement and anti-fraud arrangements.
- Issues relating to governance and audit arrangements at a school.
- Implications arising from the review of school leases and the legality of contracts.

She confirmed that as the audit was taking longer to complete additional fees to be agreed with the Director of Finance and Corporate Services would be charged and reported to the Committee. The District Auditor then drew members' attention to the Audit externalisation schedule as set out in the report and added that although the timetable had initially slipped, contracts for 3 or 5 year terms with TUPE agreements were expected to be approved by March 2012. She added that the contracts would be divided into North London and South London sectors with Brent being in the former sector.

RESOLVED:-

that the progress report on work being undertaken by the Audit Commission be noted.

8. **Audit Commission One Council Follow Up Report**

Andrea White, District Auditor, introduced the report. Clive Heaphy, Director of Finance and Corporate Services in commenting on the report stated that the progress report was the Council's four year ambitious forward looking transformation programme which aimed to deliver service improvements and cost savings of £94m by 2015. He advised the Committee that the Council had made positive progress towards implementing the One Council Programme over the last

12 months. Governance arrangements were in place and working effectively with regular monitoring which allowed risks, costs and benefits to be identified at corporate and individual project levels.

The Director emphasised that capacity remained a risk to the success of the individual programme and in recognition of that the Council was addressing it through internal appointments as well as lessening its reliance on external consultants. He referred to the following list of recommendations and added that its adherence was paramount in achieving an overall success.

- Continue to monitor capacity at project level given the need to deliver significant number of projects in 2011/12 to achieve the savings targets.

- Review how project costs and financial benefits were reported at corporate and project level.

- Specify and set out non-financial benefits set out at the start of projects.

- Monitor non-financial benefits in a meaningful and accurate way as projects progressed.

RESOLVED:-

that the Audit Commission's one Council follow up report be noted.

9. **Annual Governance Statement**

This report set out the revised Annual Governance Statement for publication as required by the Accounts and Audit Regulations 2003.

Clive Heaphy informed the Committee that this was the final version of the AGS, an initial draft having already been approved at the previous committee meeting. Two significant alterations had been made; the inclusion of issues presented by the implementation of a single accounting system across the council which had been discussed during the earlier items on the agenda. The second was the inclusion of a paragraph concerning the Settled Homes Initiative in Brent Housing Partnership. During the course of the year, Brent Housing Partnership (BHP) had been purchasing homes for temporary accommodation under the settled homes initiative backed by loans of more than £54m from the Council. Whilst the scheme appeared to be operating well, a number of problems had arisen in respect of out-of-borough purchases which suggested that in this particular area, internal controls including financial controls were not as robust as required. Work was being undertaken to strengthen the controls and ensure that no repetition could take place in the current or future years.

Clive Heaphy then sought member approval for the AGS to go forward to the Leader and Chief Executive for signature.

RESOLVED:-

that the Annual Governance Statement approved.

10. **Internal Audit Progress Report**

Simon Lane, Head of Internal Audit and Investigations introduced the report that set out a summary of the work of Internal Audit for the period 1st April 2011 to 31st August 2011 and provided further detail together with the assurance ratings and priority 1 recommendations for limited assurance reports and management responses.

He advised the Committee that a number of systems audits had been completed and were in progress across the Council including the new Project Management Framework being developed and implemented by Regeneration and Major Projects. Computer audit work was also progressing.

Simon Lane advised the Committee that the final key area of work was in relation to schools which formed a significant part of the annual coverage. A number of reports for Secondary schools audited in 2010/11 were still in draft due to a number of secondary schools failing to provide management responses to draft reports.

As was the case in 2010/11, key areas of weakness identified across several of the schools audited so far in 2011/12 related to compliance with the Financial Regulations for Schools around high value procurement and leasing arrangements. In addition, issues were identified in respect of the salary levels of Head teachers and other members of the Leadership Teams in the context of non-compliance with the national School Teachers Pay and Conditions Document 2010 (STPCD).

In welcoming the progress report, the Chair drew members' attention to the following 4 reports that were long overdue from 2010/11;

- Network infrastructure (IT)
- Corporate Property Service Model
- Michael Sobell Sinai school
- Our Lady of Lourdes

With reference to the pie chart representing recommendations implemented, the Chair advised that early warning signs be given to those service areas which had not fully implemented the recommendations and possibly the post title of the head of service be named in the report. He noted that lack of resources was suggested as the inhibiting factor, however, officers needed to maintain a sharp focus and keep the Committee fully informed of developments.

RESOLVED:-

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

11. **Any other urgent business**

None.

12. **Date of next meeting**

It was noted that the next meeting would take place on 15 December 2011.

The meeting closed at 9.40 pm

S WOOD
Chair

Audit Committee
Thursday 15 December 2011

Report from the Director of Finance and Corporate Services

For Action

Wards Affected: ALL

STATEMENT OF ACCOUNTS 2010/11 AND ANNUAL GOVERNANCE REPORTS

1.0 Summary

1.1 At its meeting on 22 September 2011 the Committee approved the statement of accounts for publication. It also considered the draft Annual Governance Reports produced by the Audit Commission and the Council's Annual Governance Statement.

1.2 Following the completion of the audit of the accounts this report presents the final versions of the reports for the Committee. An action plan to address the recommendations raised by the Audit Commission is also set out in the final Annual Governance Report.

2.0 Recommendations

The Committee is asked to:

2.1 Consider the final Annual Governance Reports from the Audit Commission and the Council's action plan.

2.3 Note the final Annual Governance Statement.

3.0 Detail

Statement of Accounts

3.1 The report to the Committee in September highlighted the key challenges in producing the accounts for 2010/11:

- The migration of financial information from multiple disparate systems
- Fundamental structural changes
- Transition of accounting statements to comply with International Financial Reporting Standards (IFRS)

3.2 The audit of accounts has now been completed and the Audit Commission

has issued an unqualified audit opinion. The final accounts were completed in accordance with the position reported to the Committee in September and were therefore approved by the Chair prior to the issue of the audit opinion.

Annual Governance Report

3.3 The final Annual Governance Reports (one for the Council and one specifically for the Pension Fund) have been produced and are attached as Appendix A and B respectively. These incorporate the final findings from the audit to be brought to the attention of the Committee and also the Audit Commission's recommendations to the Council for improving the process for the 2011/12 accounts.

3.4 The Council's action plan is set out within Appendix 6 of the Annual Governance Report and sets out the key response, responsible officer and timescale for each recommendation. Underpinning the action plan is a detailed closedown plan itemising the key individual activities required to complete the produce the 2011/12 accounts and audit working papers.

3.5 Given the scale of improvements required it is recommended that future meetings of the Audit Committee receive regular updates on progress against the action plan. In addition officers from the Council will liaise with the Audit Commission to monitor progress on implementing the recommendations.

Annual Governance Statement

3.6 The final Annual Governance Statement is attached as Appendix C. This has been updated since the version reported to the Committee in September to incorporate:

- the need to review core accounting procedures to support the production of the accounts
- the latest positive developments regarding the Icelandic deposits
- a reference to instances where Department for Education guidance on headteacher salaries has not been followed.

4.0 Financial Implications

4.1 There have been some adjustments to the Statement of Accounts during the course of the audit but for the most part these are changes to balance sheet items and notes to the accounts which have no impact the Council's overall financial position or level of available reserves.

5.0 Legal Implications

5.1 No specific implications.

6.0 Diversity Implications

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

7.0 Staffing Implications

7.1 No specific implications.

8.0 Background Information

8.1 Accounts and Audit Regulations 2011
Report to Audit Committee on 22 September 2011 (Agenda Item 5)

9.0 Contact Officer

Mick Bowden, Finance and Corporate Services, Room 114, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Tel. 020 8937 1460.

CLIVE HEAPHY
Director of Finance and Corporate Services

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Annual governance report

Final report as at 24 November 2011

London Borough of Brent

Audit 2010/11

audit commission

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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the progress on your 2010/11 audit since my reports to the Audit Committee on 22 September 2011 and the 21 October 2011. The audit is now complete. This report includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	My findings
Unqualified audit opinion	◆
Significant weakness in internal control	◆
Proper arrangements to secure value for money	◆

Audit opinion and financial statements

- It has been a particularly difficult year for the Council, implementing new financial systems and International Financial Reporting Standards (IFRS) whilst also dealing with structural change, staff losses, and a highly challenging budget settlement. This has stretched finance resources and impacted on the Council's ability to produce good quality financial statements and working papers.

Financial statements and audit opinion

- My audit is substantially complete and I plan to issue my audit report including an unqualified opinion on the financial statements by the end of November. Appendix 1 contains a copy of my draft audit report.
- This year, there were significant weaknesses in the Council's year end closedown and financial reporting arrangements which need to be addressed.
- My audit identified five material errors (one disclosure related) which the Council has amended. The amendments have decreased the reported deficit on total comprehensive income and expenditure by £8,426,000 and increased the reported net assets by £8,958,000
- I identified a further 26 non material errors (appendix 2) and a significant number of disclosure errors which the Council also agreed to amend. The amendments have further decreased the reported deficit on total comprehensive income and expenditure by £770,000 and decreased the reported net assets by £571,000.

- I identified a further 19 non material errors and uncertainties (appendix 3) which management do not propose to amend. The net impact, if recognised in full, of the unadjusted errors and uncertainties would be to increase the reported deficit on provision of services by £781,000 and decrease the net assets by £2,273,000.

Internal control

- There are significant weaknesses in the design and operation of internal controls that need to be addressed.

The way forward

- My testing has confirmed the financial statements are not materially mis-stated. However, there still remains a significant amount of work to do to ensure that data migrated to the new financial accounting system is properly cleansed, that internal controls are working properly and financial reporting arrangements are robust.
- I have made 15 recommendations in my report which management have accepted. The Audit Committee will need to satisfy itself that management have a robust and credible plan to implement both my recommendations, and the recommendations made by internal audit during the year.

Value for money

- I propose to issue an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- The level of the Council's general fund reserves has declined over the last few years and is now the lowest amongst London Boroughs. Plans to build balances are included in the medium term financial plan, but are dependent on the Council delivering on its significant savings plans.
- Members should continue to closely scrutinise the financial position of the Council and ensure there are adequate balances to mitigate the higher level of operational and environmental risk that the Council is facing.

Elector and legality matters

- I have concluded on outstanding elector and legality matters raised during the course of my audit.
- I am satisfied that the Council has appropriate governance arrangements in place to identify and act upon instances of fraud and non compliance with regulations.
- I am satisfied that these matters do not have a material effect on the 2010/11 financial statements.
- Based on the evidence currently before me, I do not intend to take any further action.

Audit fee

- Due to the problems encountered during the course of my audit, and the issues arising from electors, I expect to charge an additional audit fee which I expect to be £50,000. I will confirm and agree the final audit fee with the Director of Finance and Corporate Resources.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.
I ask you to confirm to me	**I ask the audit committee to:** ■ take note of the adjustments to the financial statements which are set out in this report (appendix 2); ■ agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3); ■ approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion (appendix 4); and ■ agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Financial statements and audit opinion

My audit is substantially complete and I plan to issue my audit report including an unqualified opinion on the financial statements by the end of November 2011. Appendix 1 contains a copy of my draft audit report. The Council is required to publish its revised audited financial statements in accordance with legislation.

In my annual governance reports to the Audit Committee dated 2 September 2011 and 21 October 2011, I reported the significant difficulties I encountered during the course of my audit. These largely arising from the introduction of a new financial accounting system, the introduction of International Financial Reporting Standards (IFRS) and the capacity of the Council's finance team to accommodate the additional workload brought by these two key changes. Consequently, I was not able to complete my audit by the due date of 30 September 2011 and the Council published its unaudited accounts on 30 September 2011, to comply with legislative requirements. The main issues which delayed my audit were as follows.

- The financial statements presented for audit were not complete and did not fully comply with IFRS. The statements excluded key transactions relating to the Council's Private Finance Initiative (PFI) agreements and leases. This has contributed to the high volume of amendments to the draft accounts.
- A full set of working papers supporting the financial statements was not available at the start of my audit. I agreed to a revised audit timetable which the Council struggled to meet. Key documents, such as the bank reconciliation, detailed lists of debtors and creditors, and a reconciliation of the Comprehensive Income and Expenditure statement to the general ledger were not available until much later in the audit process.
- The Council's bank account was not properly reconciled at the start of the audit. This was attributable to the move to Oracle and gaps in the processes and controls implemented by the Council. It took the Council a considerable time to provide the reconciliation. The first reconciliation provided to me contained £6.6 billion of gross reconciling items and balances relating to bank accounts which had either been closed or had a nil balance at the year end. I recommenced my detailed testing on version 36 of the reconciliation which I received on 24 October 2011.

- My testing on year end debtor and creditor balances identified that the balances included old balances which had not been cleared prior to migration to the new financial system. I have undertaken additional testing to confirm the balances are not materially mis-stated, however, my testing shows that debtors £5,419,000 and creditors £5,603,000 may be overstated.
- Overall, I raised 116 queries, which were not cleared within two days, throughout the period of my audit. This is a significant number and more than I would have expected to raise on an audit of this size. A large number or my queries related to the Council's supporting working papers, cash and bank, debtors and creditors balances.
- The revised financial statements, presented to me as agreed on 28 October 2011, did not contain all of the expected amendments. We have received further versions, and expect to complete our final review on the version provided on the 24 November 2011.

Errors in the financial statements which have been amended

My audit identified five material errors (one disclosure) which the Council have agreed to amend. These are detailed below.

- Transactions for PFI agreements were not included in the draft financial statements. After completing my audit procedures, I agreed the amendment to increase assets by £21,876,000, increase liabilities by £25,603,000 and reduce reserves by £3,727,000. The amendment includes the correction of an error highlighted by my audit procedures relating to increasing the Stonebridge PFI liability, revised valuation and impact of asset sales on the new non-HRA housing PFI.
- A material downward revaluation of £240,153,000 was misclassified. The revaluation resulted from a national change in the social housing factor on the valuation of Council housing stock, which was incorrectly treated as Other operating expenditure in the Comprehensive Income and Expenditure Statement (CI&E). This should be reclassified to the net cost of services within the CI&E in accordance with the Best Value Accounting Code of Practice 2010/11 (BVACOP). This has no impact on the reported deficit.
- A material negative past service cost of £117,950,000 was misclassified. The past service cost resulted from a change in the national basing of annual pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI), which was incorrectly treated as Other operating expenditure. This should be treated as a Net cost of service cost within the CI&E as required by International Accounting Standard: Employee Benefits (IAS19). This has no impact on the reported deficit.
- An error was made while entering the valuation for land at Copland Community School into the Council's asset management system. This resulted in an understatement of land in the balance sheet of £12,685,179. This asset needs to be revalued upwards by £12,685,179, the impairment of £6,000,000 reversed and a revaluation gain of £6,685,179 recognised. This leads to a £12,685,179 increase in net assets.
- The Movement in Reserves Statement (MiRS) for 2010/11 and 2009/10 included multiple, material disclosure errors. The purpose of this statement is to disclose movements between reserves and adjustments between accounting and funding basis. The original MiRS received was fundamentally incorrect, for example:
  - surplus on the Comprehensive Income and Expenditure statement (CI&E) of £130 million was incorrectly recorded as a deficit;
  - other comprehensive income and expenditure did not agree to the CI&E, with a variance of £140 million; and
  - key adjustments needed to eliminate the impact of transactions on reserve balances were not performed correctly.

- The variances above arose partly because of the misclassification of the two exceptional items listed above. However, there were also numerous accounting errors, which resulted in movements being allocated to the incorrect reserve and at incorrect values, for example:
  - a £58 million error in capital grants unapplied (incorrectly credited to the Capital Adjustment Account (CAA) rather than the CI&E; and
  - £21 million of asset disposal proceeds incorrectly credited to the CAA rather than the CI&E.

Similar issues were identified in the Council's restatement of the 2009/10 MiRS to comply with IFRS. We also identified instances where material movements between reserves were treated inconsistently between 2009/10 and 2010/11. The Council have agreed to the necessary amendments to correct the MiRS for 2010/11 and 2009/10.

In addition to the above, I identified a further 26 errors which the Council have agreed to amend. These are detailed on Appendix 2 of this report. I also identified a significant number of disclosure errors which the Council have also agreed to amend.

Errors in the financial statements which have not been amended

My audit has identified a further 20 errors and/or uncertainties, which management do not propose to amend. These are detailed below. The net impact, if adjusted in full, of the unadjusted errors and uncertainties would be to increase the reported deficit on provision of services by £781,000 and decrease the net assets by £2,273,000.

- My work on testing the outstanding items on the bank reconciliation identified some errors. I have extrapolated these errors with the following impact. The amendment would increase the reported deficit and net assets by £1,887,000.
- My sample testing of debtors and creditors identified old balances that were not reviewed prior to the migration of balances to the new financial system. Eleven uncertainties arose in relation to debtors and creditors. I am unable to gain sufficient assurance to support these balances and it is uncertain whether these amounts will be received or paid by the Council. Consequently, debtors and creditors may be overstated. If the Council were to adjust the financial statements, the net impact would be to increase the reported deficit by £184,000, reduce debtors by £5,419,000 and reduce creditors by £5,603,000.
- I identified an error in how the Council’s asset manager software calculated depreciation on recently revalued assets. The extrapolated impact of this error would be to increase depreciation of £586,000 and increase the reported deficit. This would reduce the value of net assets by the same value.
- I was not able to gain assurance over £1,016,000 of the change in revaluation of Property, plant and equipment reported in the Comprehensive Income and Expenditure Account. The Council were unable to substantiate or provide evidence for this accounting entry. To amend for this uncertainty would reduce the reported deficit by £1,016,000.
- The Council has not accounted for component accounting in accordance with its stated policy and as required under IFRS. The Council has not identified components and the different rates of depreciation for the scheduled assets. I estimate the impact to be an understatement of fixed assets and depreciation by £372,000. To amend for this uncertainty would increase the reported deficit and net assets by £372,000.
- My sample testing of income identified an expense incorrectly netted off income within the Comprehensive Income and Expenditure Statement. The extrapolated impact of this error would be to reduce income and expenditure by £946,000. This has no impact on the reported deficit or net assets.

- Council tax collections had not been accrued for up to 31 March 2011. Internal controls and processes are not robust enough to ensure the income is recorded for the last few weeks of the financial year. The Council has made changes to eliminate this in the 2011/12 year. The debtor collections were understated by £228,000. This would have no impact on the reported deficit and net assets.
- In reconciling the Council's general ledger reporting to the Comprehensive Income and Expenditure Statement, I identified an unexplained variance of £476,000. This would increase the reported deficit.
- I identified one payment accounted for as an expense, which related to the 2011/12 year. Therefore this should have been accounted for as a prepayment. My extrapolation of this error indicates a possible overstatement of expenditure of £388,000. This would decrease the reported deficit if amended.

The way forward

It is clear from my work that the Council has struggled to implement its new general ledger system and implement IFRS effectively in the same year. This is while also dealing with structural change, staff losses and a highly challenging budget settlement. The introduction of a new financial system and related processes needed a stronger central financial control function, to take an overall lead on:

- monitoring compliance with timetables;
- reviewing key balances, including challenge of unexplained variances; and
- overall ownership and responsibility for the financial statements.

The Council did not have the right capacity, skills and structures to effect the changes required to work in a different and more centralised way. Consequently, the Council was not able to respond to the warning signs reported in both internal and external audit reports during the year. Following completion of the audit, the Council should undertake a review the skills and capacity need to ensure:

- the tasks and responsibilities required to operate the new financial system effectively are clearly mapped and allocated to relevant staff;
- training needs are identified and delivered;
- skills and capacity required to produce IFRS compliant statements are assessed and provided; and
- a robust financial statement closedown (a clear project plan is in place, allocating responsibilities to officers and targets to monitor progress to date) is developed and delivered.

I will review the position with the Director of Finance and Corporate Resources following the audit, and review plans for improvement

Recommendations
R1 Review of the financial reporting and control function and make the changes required to ensure it is fit for purpose.
R2 Approve, sign and publish audited accounts in accordance with section 8 of The Accounts and Audit (England) Regulations 2011.

Key areas of judgement and audit risk

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

Key audit risk and my findings

Key audit risk	Finding
1. Transition to International Financial Reporting Standards The Council is required to prepare the 2010/11 financial statements according to International Financial Reporting Standards (IFRS) (including a full re-statement of 2009/10 balances). This poses a significant risk of material misstatement to the financial statements.	In 2010/11, my audit team has: ■ monitored the implementation of IFRS at key stages; and ■ reviewed restated 2009/10 balances. I rated the Council's progress on IFRS implementation as red (Not on track/Significant issues) and reported this to the Audit Committee in February 2011. The financial statements presented for audit were not complete and not fully compliant with IFRS. The financial statements omitted transactions relating to school leases and PFI contracts. I identified a large number of areas where the financial statements did not comply with IFRS disclosure requirements, the most significant of which related to the Movement in Reserves Statement where material errors were noted. Further detailed analysis is found in the Quality of your financial statements section of this report. The revised financial statements comply with IFRS, after the agreed audit amendments were made.

Key audit risk	Finding
2. Consolidation and migration of main accounting system 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 were effective from 1 September 2010. This is part of the 'One Council' Improvement and Efficiency strategy.	My audit team has: ■ considered reviews performed by Internal audit on the system changes; ■ reviewed the migration of data from existing systems to the new financial system; ■ reviewed controls over the new financial IT systems; ■ documented and tested the new financial systems; ■ performed controls testing, taking consideration of Internal audit's work; and ■ substantively tested the output during my final accounts audit. My review of the change process confirmed that the data was migrated to the new system, although there was limited evidence of controls over the process in place. My audit identified numerous migration balances were not reconciled. This has been more time consuming to audit, given the complex audit trails involved and to confirm there is no material impact on the financial statements. Controls are not working effectively as there remain unresolved reconciliation items outstanding seven months after migration to the new system. Monthly reconciliations of balance sheet accounts should identify and ensure significant reconciling and unreconciled items are cleared in a timely manner. These issues were not reported to me or the audit team at our regular meetings with officers. The Council's closedown plan was not robust even though good examples were provided from three other London Boroughs. Overall, my audit work concluded that there was no material misstatement. Non-material uncertainties over cash balances, debtors and creditors have been detailed in appendix 3. The Council will need to address the weaknesses identified during my audit, particularly when revisiting close down arrangements for 2011/12 onwards.

Key audit risk	Finding
3. Impact of Council savings plans 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.	My audit team has reviewed accounting arrangements and year end balances to account for redundancies in accordance with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS37). My work provided assurance over the proposed redundancy provision of £1,939,000, which was not included in the draft accounts. I have agreed this amendment with management and it is included in appendix 2.
4. Continued correct accounting for service concessions 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 eg new asset transfers or variations to the original agreement.	My audit team has: ■ reviewed arrangements to ensure any changes in agreements are identified and accounted for; and ■ audited year end balances. I found one error in accounting for service concessions, which were brought onto the Council's balance sheet in 2009/10, relating to the unitary payment. The actual payment of £1.8 million was not reconciled to the £1.1 million payment in the accounting model. This revision has now been agreed to the supporting ballot, allocating ownership between the Council and the contract operator. The allocation of ownership provides the basis for allocating rents, the unitary payment and the liability. The amendment increased the unitary payment and the year end liability. The Council entered into phase two of its Housing PFI in 2010/11. My audit work has uncovered inconsistencies in the valuation of the 2010/11 assets between the operator model and the internal valuer. I also identified that the asset sales on the new non HRA housing PFI had not been accounted for. Following my audit, the Council have revised the accounting model and I reviewed and agreed the revised amendments. The updated entries are included in the revised financial statements. The amendments are detailed in appendix 2.

Key audit risk	Finding
5. Council dwellings - Impairments The Department for Communities and Local Government (CLG) published 'Stock Valuation for Resource Accounting - Guidance for Valuers 2010' which the Council is required to follow. The key impact of this on the Council was the reduction in the Social Housing Adjustment Factor from 37 per cent to 25 per cent. The Council reduced the valuation of its properties by £234.6 million which was treated as an impairment charge to the Comprehensive Income and Expenditure Statement.	I reviewed the calculation to CLG guidance and the accounting treatment. My work identified a misclassification of the impairment. I have agreed this amendment with management and it is included in appendix 2.
6. Pension changes The Council was required to change the basis for calculating the measure of price inflation for public sector schemes from April 2011. The Council is now required to use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). This change affects the valuation of pension liabilities and as a result there was a credit of £117.9 million to the Consolidated Income and Expenditure Account.	I reviewed the Council's accounting treatment and the actuarial valuations. My work identified a misclassification of the past service cost. I have agreed this amendment with management and it is included in appendix 2.

Recommendations

R3 Provide financial statements for audit that include all relevant accounting entries for the year under review.

R4 Manage year end closedown against a robust close down plan, which contains clearly identified roles, responsibilities and target dates.

R5 Maintain and collate working papers to support the preparation and audit of the financial statements on a timely basis.

R6 Review in year changes in to PFI agreements and the accuracy of accounting entries on an annual basis.

R7 Ensure quality control and internal review processes are part of the monthly and year end close down process.

Financial statements

Significant weaknesses in internal control

The reported weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

In my interim report to the Audit Committee in February 2011, I reported weaknesses over the internal controls relating to journals, cash and bank, accounts payable, council tax, NNDR and IT. Management agreed recommendations to implement controls before year end. These will need to be revisited following on from audit findings below. I identified the further internal control weaknesses during my audit of the financial statements which I reported to the Committee on 22 September 2011. For completeness, I summarise these below.

Internal control issues and our findings

Description of weakness	Impact
1. Cleansing of data post migration My sample testing has identified unreconciled migrated balances throughout the audit. This includes debtors, creditors and bank. These items have complex audit trails and require the knowledge of specific individuals to resolve.	Unreconciled balances may contain income and expenditure not properly recorded in the financial statements. The integrity of the migration controls are undermined by not ensuring controls are properly reconciled prior to, and following, the migration of balances to the new system. My sample testing of debtors and creditors identified numerous old balances from the migration. I was unable to gain assurance over these balances, these include debtors of £5,419,000 and creditors of £5,603,000.
2. Main bank reconciliation The bank reconciliation provided to audit for 31 March 2011 included £6.6 billion of gross outstanding items. Not all the outstanding items are proper bank reconciliation items, and included reconciling balances.	The effectiveness of the bank reconciliation as a control is undermined by the large outstanding items and not reconciling to the closing bank statement balance. Unreconciled balances may contain income and expenditure not properly recorded in the financial statements.

Description of weakness	Impact
The bank reconciliation was for the transactions processed from 1 September using a nil starting balance. This is opposed to importing the starting bank reconciliation and reconciling to the closing bank statement balance of the relevant periods. This has contributed to unreconciled migrated balances not being cleared in a timely manner.	The most recent version (version 36 received on 24 October 2011) I audited included £393,000,000 of gross outstanding items. It has taken some time to provide support for these reconciling items in order to complete my audit work and gain the necessary assurances.
3. Management and analytical review of the balance sheet I have not been able to obtain appropriate support and explanations for year on year change in debtors and creditor balances.	Lack of review and understanding over debtors and creditor balances may lead to material errors in the financial statements. My testing identified cumulative material errors within debtor and creditor balances. Cumulatively material errors have been amended and some uncertainties have arisen from my sample testing.

Recommendations
R8 Clear the remaining unreconciled migrated balances in debtors and creditors.
R9 Clear material outstanding items within reconciliation controls in a timely manner on the bank reconciliation.
R10 Reconcile the bank account balance in the general ledger to the bank statement.
R11 Ensure managements overall analytical review of the financial statements includes debtors and creditors.

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

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

This year has been challenging for local government with the introduction of IFRS. Given the scope and depth of disclosures required by IFRS, there was an increased likelihood of disclosure errors in the first year of IFRS implementation. Notwithstanding these challenges, a comparison with other London Boroughs has indicated a significantly higher number of disclosure errors have been indentified within the Council's financial statements. Many of the errors relate to the Movement in Reserves statement.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
1. Disclosures in the financial statements The initial draft financial statements did not meet all the disclosure requirements of the CIPFA Code of Practice on Local Authority accounting. Various omissions and additions to disclosures have been agreed arising from my audit. The incomplete accounts (PFI and school leases) highlight the pressure the Council was under to complete the financial statements on time. This pressure has minimised the positive impact of potential self review of financial statements against disclosure checklists prior to audit.	Agreed amendments have been summarised and detailed below. ■ Various notes were omitted from the financial statements, including: – material estimates included in the financial statements; – key judgements and sources of estimation uncertainty; – events occurring after the balance sheet date (the Council stated that there were none); – Group Movement in Reserves Statement; and – 1 April 2009 transitional IFRS group balance sheet. ■ Some disclosure notes were incomplete, or not fully compliant with the CIPFA Code of Practice, for example: – the explanatory foreword to the financial statements did not offer a commentary on the Council's financial position, the major influences affecting the Council's income and expenditure and cash flow, or an understandable guide to the most significant matters reported in the financial statements; – related party transactions note did not disclose income and expenditure, or debtor and creditor balances, with related parties in all cases; – financial instruments notes 15 and 50 did not include all instruments, such as debtors, creditors and cash. Notes also required more information regarding assumptions applied in valuing financial instruments; – insufficient commentary was included regarding the transition from UK GAAP

Issue	Findings and recommendations
	accounting to International Financial Reporting Standards; and – Contingent Liabilities disclosed were not in accordance with IAS37 ■ I found that the following disclosures were also incomplete: – the Council did not compile a note on contractual commitments for the acquisition of property, plant and equipment; – disclosures regarding the valuation of property, plant and equipment were incomplete; – disclosure on provisions did not include information regarding expected timing of outflows, and any uncertainties connected to this; – discount rate used on IAS19 liability was not disclosed; and – group accounts disclosures were not complete, including details on how group financial statements were compiled, accounting policy harmonisation, and consideration of other group entities. ■ I also found the following more minor disclosure errors: – no disclosure of the nature and purpose of reserves; – de minimis level for accounting for property, plant and equipment was not disclosed in accounting policies; – no reconciliation was included between the total of future minimum lease payments on finance leased assets at the Balance Sheet date, and their present value; – no details were included regarding the revaluation of investment property. ■ The general presentation of the financial statements was poor, including the above omissions. ■ I found various minor presentation amendments including additions, agreement to supporting notes, note references, typographical errors, correct dates and years.

Recommendations

R12 Produce draft financial statements that comply with requirements of IFRS and CIPFA Code.

R13 Undertake a self review of compliance against disclosure requirements using disclosure checklists (available from CIPFA and Audit Commission) as part of the Council's year end closure arrangements.

Financial statements

Significant difficulties encountered during the audit

I have reported the significant difficulties encountered during the audit in the sections above.

Significant matters that were discussed or subject to correspondence with management

There have been no other matters I discussed with or that were subject to correspondence with management.

Letter of representation

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

Other matters

I have concluded on outstanding elector and legality issues arising during the course of my audit. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements. The matters and my findings are detailed in the table below.

Issue	Findings and recommendations
Legality of school leases Internal audit identified non-compliance with financial regulations regarding leases taken out by schools. The School Standards and Framework Act 1998 prohibits the use of finance leases by schools and puts restrictions on the use of operating leases. The Council performed more work on this area as a result of the introduction of IFRS. This identified finance leases with a total value of £1,719,361 at 31 March 2011. Internal audit also raised concerns that these leases did not always represent value for money.	The value of assets and leases entered into without the Council's approval, as at 31 March 2011 were: ■ Assets £914,000; and ■ Outstanding lease liability of £1,315,000. I reviewed the actions taken by the Council which were as follows. ■ Sought legal advice on possible remedies for expensive finance leases. ■ the Director of Finance and Corporate Resources has sent a letter to all schools setting out the issue, the areas of non compliance with regulations and re-iterating the requirement to comply with financial instructions. ■ The Director of Finance and Corporate Resources has addressed school governors and head teachers to explain the issues, offer help and support in complying with financial instructions and regulations and to those wishing to take further action in relation to onerous leases. ■ The Children & Families department are working with schools to help them exit from onerous lease agreements. ■ The Council is working with other Councils with similar issues to identify what further legal action can be taken.

Issue	Findings and recommendations
	I have concluded that the Council has appropriate arrangements in place to identify and act upon instances of non compliance with regulations. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements. Based on the evidence currently before me, I do not intend to take any further action.
Teachers pay An elector has raised concerns about a school which includes concerns about compliance with school teachers pay and conditions.	In considering my response I have met with the Head of Internal Audit and reviewed the controls the Council has in place to enable it to discharge its responsibilities in respect of schools. Internal audit have a programme of control reviews at schools and report its findings to the school, management and the Audit Committee. Internal audit have identified and highlighted concerns over teachers pay. This is where compliance with the national School Teachers Pay and Conditions Document 2010 (STPCD) has not been satisfied as identified in some of the reviews it has performed in 2010/11. Every school has been written to reminding them of the requirement to comply with STPCD and providing advice on the new 2011 release. Additionally, those schools who have been identified through audit as having specific problems have been written to separately advising that they must regularise the pay for their head teachers and any other staff. I have taken into account the previous review I have undertaken in this area and considered the actions the Council has taken against previous recommendations. I am satisfied that appropriate arrangements are in place to discharge its responsibilities and I do not propose take any further action.
Blue badge fraud An elector raised concerns regarding to a possible fraud related to blue badge use.	I have reviewed the arrangements over blue badge abuse. There are various arrangements to mitigate misuse of blue badges including compliance checks, follow up of referrals and specific site visit and checks. I am satisfied that appropriate arrangements are in place to guard against fraud and therefore I do not propose take any further action.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I have completed my work on the value for money conclusion. I confirm that overall the Council has maintained adequate arrangements to secure economy, efficiency and effectiveness in the use of its use of resources. However, looking forward there are significant financial challenges ahead, with the risks to Council's financial stability continuing to increase. The Council's general reserves are low and earmarked reserves are falling, whilst at the same time demand for services is increasing and the level of savings required in the coming years is significant and unprecedented. The maintenance of strong financial control will be essential if the Council is to achieve its plans. When setting its budget for 2012/13, the Council must continue to have regard to the increasing level of risk in setting its reserves.

Value for money criteria and my findings

Criterion	Adequate arrangements	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	Yes	The Council understands the financial challenges and risks it faces. Executives and non-executives provide constructive scrutiny on financial matters and there is an effective Audit Committee in place. The Council has updated its medium term financial strategy to reflect the savings required over the next four years. The Executive receive regular finance reports that provide a clear link between budget, in-year forecasts and the year-end forecast. For 2010/11 the Council made an unplanned overspend against its budget of £300k, which reduced the level of General Fund reserves. There were large overspends in Housing and community care and Children and Families, which were partially offset by savings in Central costs eg underspending on One Council costs and reduced levies from bodies such as the London Pensions Fund Authority for historic pension deficits on demised bodies. To achieve a balanced financial position in 2011/12, the Council's budget contains an overall savings plan of £41.7 million, of which £25 million are to be delivered from the One Council programme. A large proportion of the One Council programme savings relies on service re-design and management of demand for services, which can take time to implement, increasing the risk of timely achievement. At the end of September 2011 the Council's budget management report is forecasts an £1.7 million overspend, with £31.1 million savings having been delivered to date. The overspend will be managed through efficiencies in other budgets within the relevant departments.

Criterion	Adequate arrangements	Findings
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Yes	The Council has proper arrangements in place to challenge how it secures economy, efficiency and effectiveness. Each Council reports its performance through a departmental scorecard covering performance, finance, One Council projects and key risks and issues. The Council benchmarks its performance against other Councils and has used this as a basis to develop savings and improvements through its One Council transformation programme and to challenge departmental performance and savings programmes. The One Council Programme covers the four year period 2010-2014. We performed our second review of the programme during 2010/11. The main objective of the programme is to achieve budget savings of up to £94 million by 2014/15 while raising performance, maximising efficiency, creating a council that looks and feels like one cohesive organisation, creating new flexible ways of working, stopping lower priority activities, generating increased income, improving procurement and property management and creating a council fit to deliver the members' corporate strategy. Our key findings are: ■ good progress has been made on the project; ■ effective governance arrangements are in place; ■ risks to the delivery of the programme include: – capacity; – accurate monitoring of financial benefits; – transparency of revisions to financial projections; and ■ introducing a systematic way to capture non-financial benefits at project level.

Criterion	Adequate arrangements	Findings
		The Council have provided an update evidencing action against our recommendations. We will review progress of the One Council programme and recommendations during our 2011/12 audit.

Recommendations
R14 Have regard to the increased level of financial risk when setting the level of Council general reserves.
R15 Review progress against action plan agreed with officers from 2 review of the One Council programme review.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no matters to report.

Appendix 1 - Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of London Borough of Brent for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the

information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Brent's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in

accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Brent put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Andrea White
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank

Appendix 2 - Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	**Nature of adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Dr Exceptional item (net cost of services) Cr Exceptional item (other operating expenditure)	Exceptional cost, arising from downward revaluation of HRA properties, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with CIPFA Code.	240,153	240,153		
Dr Exceptional item (other operating expenditure) Cr Exceptional item (net cost of services)	Exceptional cost, arising from change in CPI to RPI in calculating IAS19 pension liability, incorrectly allocated to other operating expenditure. This is reallocated to Net cost of services in accordance with CIPFA Code.	117,950	117,950		

		Comprehensive income and expenditure statement		Balance sheet	
Dr Assets Cr Liabilities Dr Expenditure Cr Movement in Reserves Dr Reserves	Account for PFI entries not included in 2010/11 financial statements. This includes adjustments to account for revised Stonebridge unitary payment, revised valuation and impact of assets sales of new non HRA housing PFIs.	4,259	4,259	21,876 3,727	25,603
Dr Deposits Cr Overdrafts Cr Current bank accounts	School cash and cash equivalents incorrectly allocated to current bank balances. Reallocate short term deposits held and overdrawn balances.			11,141	6,271 4,871
Dr Land and buildings Cr Surplus or deficit on revaluation of Property, Plant and Equipment assets Cr Revaluation reserve	Error made entering Copland valuation. Reversal of incorrect downward valuation entries made.		6,000	12,685	6,685
Dr Provisions Cr Accrued leave pay	Reallocate accrued leave pay as an accrual.			9,589	9,589
Dr Bank Cr Prepayment (included in Cash and bank)	Reverse internal entry related to payment of 2011/12 school income.			9,394	9,394
Dr Creditors Cr Deferred income	DSG grant income treated as deferred income incorrectly. This related to 2011/12 and was received post 31 March 2011.			9,261	9,261

		Comprehensive income and expenditure statement		Balance sheet	
Dr HRA amortised and payment discount (HRA MIHRAS) Cr HRA amortised and payment discount (HRA I&E)	Amount incorrect included in HRA statement. To be reallocated to accounting and funding basis.	4,932	4,932		
Dr Transport income Cr Transport expense	Correction of overstatement of income and expenditure in transport services due to incorrect internal charging.	3,190	3,190		
Dr VAT control account Cr Expenditure Dr Transfer to earmarked reserves Cr Modernisation reserve	A credit balance in the VAT control account has been reversed to the I&E as this cannot be supported by evidence. The Council proposed to transfer this to the Modernisation reserve.	2,288	2,288	2,288	2,288
Dr Creditors Cr Debtors	Reallocate a credit balance relating to debtors incorrectly included in creditors, relating to debtors credit noted post year end.			2,218	2,218
Dr Income Dr Creditors Cr Debtors Dr Modernisation reserve Cr Transfer from earmarked reserves	The debtors and creditor balances incorrectly included internal balances. These have been written off to the I&E. The Council proposed to utilise the Modernisation reserve for this expense.	907	907	1,172 907	2,079
Dr IAS19 expenditure	Entry arising from review and correction of MiRS which confirmed	2,387	2,387		

		Comprehensive income and expenditure statement		Balance sheet	
Cr Revaluation gain (Other CI&E) Cr Interest (FIAA) Cr IAS19 income Dr MiRS	incorrect treatment of certain non-cash items				
Dr Creditors Cr HB overpayments	Cash received for housing benefit overpayments incorrectly accounted for as income in advance. Reallocated to debtors.			1,967	1,967
Dr Staff costs Cr Redundancy provision	Account for redundancy provision not included in draft financial statements.	1,939			1,939
Dr Assets Cr Liabilities Dr Reserves	Entry to restate financial statements for leases at 1 April 2009 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.			1,055 464	1,519
Dr Assets Cr Liabilities Dr Reserves	Entry to restate financial statements for leases in 2009/10 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.			438 346	784
Dr Liabilities	Entry to restate financial statements			1,782	

		Comprehensive income and expenditure statement		Balance sheet	
Cr Assets Dr Expenditure Cr Movement in Reserves Cr Reserves	for leases in 2010/11 under IFRS. This includes adjustment to account for £691,000 of onerous leases arising from early settlement of leases from 1 April 2009 to 31 March 2011.	917	1,037		638 1,024
Dr Loss on disposal of non current assets Cr Difference in accounting and funding basis (MIRS) Dr Capital adjustment account Cr Non current assets	Reverse profitable disposal transaction which was double counted	676	676	676	676
Dr Creditors Cr Debtors	Eliminate related balances used to clear problems associated with introduction of purchase orders.			532	532
Dr Exceptional item Cr Investment income	Gain on investment incorrectly treated as exceptional item. Reallocate to investment income.	501	501		
Dr Unallocated receipts Cr Expenditure Dr Transfer to earmarked reserves Cr Modernisation reserve	A credit balance in debtors has been reversed to the I&E as this cannot be supported by evidence. This is the uncleared balance after reconciliation of data post 31 March 2011. The Council proposed to transfer this to the Modernisation reserve.	463	463	463	463

		Comprehensive income and expenditure statement		Balance sheet	
Dr Short term provisions Cr Long term provisions	Reclassification of provisions for consistency between working papers and accounts			404	404
Dr Non-current assets Cr Impairment (I&E) Dr MiRS (accounting basis adj) Cr Capital Adjustment Account	Amendment to correct overstatement in impairment on Stonebridge PFI assets	335	335	335	335
Dr Short term debtors Cr Long term debtors	Amendment to account for short term element of loan to Brent Housing Partnership			289	289
Dr Teachers payroll costs Cr Teachers pension accrual	Correct understatement of year end teachers pension liability.	257			257
Dr Unusable reserves Cr Usable reserves	Entry arising from review and correction of MiRS and agreed audit adjustments			144	144
Dr Impairment Cr Non current asset	Impair capital costs related to Kingsbury Children's Centre as this will not be completed.			116	116
Dr Creditors Cr Debtors	Reallocate a credit balance relating to housing rent debtors which was incorrectly included in creditors.			116	116
Dr Impairment Cr Investment - LAML Dr Modernisation reserve Cr Transfer from earmarked	The LAML balance in investment has been impaired by 96,000 to the value supported by evidence. The Council proposed to utilise the	96	96	96	96

		Comprehensive income and expenditure statement	Balance sheet
reserves	Modernisation reserve for this expense.		
Net effect of adjustments		£9,196 decrease in reported deficit	£8,387k increase in net assets

Appendix 3 - Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	**Nature of required adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Dr I&E Cr Debtors	Accounting for five uncertainties with old debtor balances which cannot be agreed to evidence.	5,419			5,419

		Comprehensive income and expenditure statement		Balance sheet	
Dr Creditors Cr I&E	Accounting for six uncertainties with old creditor balances which cannot be agreed to evidence.		5,603	5,603	
Dr Expenditure Cr Bank	My work on testing the outstanding items on the bank reconciliation identified some errors. I have extrapolated these errors with the following impact. To amend for the extrapolated errors would reduce the reported surplus and net assets by £1,887,000	1,887			1,887
Dr I&E – gross income Cr I&E – gross expenditure	Extrapolation of error found where expense had incorrectly been netted off against income.	946	946		
Dr Depreciation Cr Fixed assets	Accounting for understatement of depreciation due to anomaly noted on a recently revalued asset. This includes actual and extrapolated errors.	586			586
Dr CAA Cr I&E (Impairment of Housing stock)	Account for uncertainty over an item in the revaluation loss		1,016	1,016	
Cr I&E Dr Reserves	Account for uncertainty on reconciliation between central reporting and CIES statement		476	476	
Dr Prepayments Cr I&E – gross expenditure	Extrapolation of item recorded as expense in 2010/11 rather than as a 2011/12 prepayment.		388	388	

		Comprehensive income and expenditure statement		Balance sheet	
Cr Non-current assets Dr I&E - depreciation	Possible error arising from non-adoption of component accounting in line with LBB accounting policies.	372			372
Dr Cash and Bank Cr Debtors	Part of council tax income paid into the Co-op bank account in 2010/11 was not accrued for in the accounts.			228	228
Net impact		£781,000 increase in reported deficit		£2,273,000 decrease in net assets	

Appendix 4 - Draft letter of representation

To: Andrea White

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

London Borough of Brent and Pension Fund – Audit for the year ended 31 March 2011

We confirm to the best of our knowledge and belied, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

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

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

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the appendix.

Supporting records

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

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

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

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

Law, regulations, contractual arrangements and codes of practice

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

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

Irregularities

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

There have been no:

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

We also confirm that we have disclosed:

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

Post balance sheet events

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

Compensating arrangements

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

We confirm that this letter has been discussed and agreed by the Audit Committee on 22 September 2011

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Signed ……	Signed ……	Signed ……
Name: Gareth Daniel	Name: Clive Heaphy	Name: Stephen Wood
Position: Chief Executive	Position: Director of Finance and Corporate Resources	Position: Chair of the Audit Committee

Date ……

Appendix 5 - Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

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

‘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.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 - Action plan

Recommendations	
Recommendation 1	
Review of the financial reporting and control function and make the changes required to ensure it is fit for purpose.	
Responsibility	Director of Finance and Corporate Services
Priority	High
Date	31 December 2011
Comments	We are undertaking a review of the skills and capacity required within the financial reporting and control function. This will focus on ensuring that all the activities in producing the 2011/12 accounts are allocated to individuals with clear monitoring and tracking of delivery through a robust project plan with clear deadlines and accountabilities.
Recommendation 2	
Approve, sign and publish audited accounts in accordance with section 8 of The Accounts and Audit (England) Regulations 2011.	
Responsibility	Director of Finance and Corporate Services
Priority	High
Date	30 September 2012
Comments	Building on lessons learned from 2010/11 audit process the timetable for 2011/12 has been drafted which is in accordance with statutory requirements. This will be shared with the Audit Commission for feedback to ensure robust plan is in place with clear deadlines and accountabilities.

Recommendation 3	
Provide financial statements for audit that include all relevant accounting entries for the year under review.	
Responsibility	Deputy Director of Finance
Priority	High
Date	30 June 2012
Comments	Following implementation of IFRS the closedown timetable for 2011/12 sets out in detail the key activities and milestones to ensure comprehensive coverage in the accounts including finance leases.

Recommendation 4	
Manage year end closedown against a robust close down plan, which contains clearly identified roles, responsibilities and target dates.	
Responsibility	Deputy Director of Finance
Priority	High
Date	30 June 2012
Comments	Robust closedown plan has been drafted and will be shared with the Audit Commission for feedback. The closedown process will be actively project managed to ensure progress remains on track and that risks and issues and addressed.

Recommendation 5	
Maintain and collate working papers to support the preparation and audit of the financial statements on a timely basis.	
Responsibility	Head of Financial Management
Priority	High
Date	30 June 2012
Comments	We will confirm working paper requirements with the Audit Commission. The closedown timetable has built in activity to monitor the creation and review of working papers to ensure that these support the entries in the financial statements. We are considering the benefits of inviting a ‘critical friend’ to work with us during Q4 to provide quality assurance.

Recommendation 6	
Review in year changes in to PFI agreements and the accuracy of accounting entries on an annual basis.	
Responsibility	Head of Financial Management
Priority	Medium
Date	30 April 2012
Comments	Closedown plan includes all the activities relating to reviewing PFI agreements for changes.

Recommendation 7	
Ensure quality control and internal review processes are part of the monthly and year end close down process.	
Responsibility	Head of Financial
Priority	High
Date	These have commenced
Comments	The maintenance of a comprehensive record of reviews undertaken, duly authorised together with the reporting of key internal control processes reported to Strategic Finance Group from November 2011 onwards. This sets out latest position and areas for further action.

Recommendation 8	
Clear the remaining unreconciled migrated balances in debtors and creditors.	
Responsibility	Head of Financial Management
Priority	High
Date	31 December 2011
Comments	This work has already commenced and will be completed by the end of December 2011.

Recommendation 9	
Clear material outstanding items within reconciliation controls in a timely manner on the bank reconciliation.	
Responsibility	Head of Financial Management
Priority	High
Date	31 January 2012
Comments	Specific project underway to clear residual items within the system. The groundwork for this was undertaken as part of the 2010/11 audit process. Once completed this will enable full system reconciliations.

Recommendation 10	
Reconcile the bank account balance in the general ledger to the bank statement.	
Responsibility	Head of Finance Service Centre
Priority	High
Date	31 January 2012
Comments	Ongoing reconciliation taking place during 2011/12. Full system reconciliation report will be in place once project referred to above completed and will be maintained monthly.

Recommendation 11	
Ensure managements overall analytical review of the financial statements includes debtors and creditors.	
Responsibility	Head of Financial Management
Priority	Medium
Date	31 May 2012
Comments	Closedown plan includes analytical review of all balance sheet items including debtors and creditors. Similar process will be adopted monthly.

Recommendation 12	
Produce draft financial statements that comply with requirements of IFRS and Cipfa Code.	
Responsibility	Finance Manager (Financial Reporting)

Priority	High
Date	31 May 2012
Comments	Updated guidance will be reviewed when published and the Finance Manager will agree all requirements including new and amended notes with the Audit Commission in advance of the audit.

Recommendation 13

Undertake a self review of compliance against disclosure requirements using disclosure checklists (available from Cipfa and Audit Commission) as part of the Council's year end closure arrangements.

Responsibility	Finance Manager (Financial Reporting)
Priority	High
Date	31 May 2012
Comments	Updated disclosure checklists will be reviewed and requirements agreed with the Audit Commission in advance of the audit. All requirements will be allocated to specific officers to ensure information produced on time.

Recommendation 14

Have regard to the increased level of financial risk when setting the level of Council general reserves.

Responsibility	Director of Finance and Corporate Services
Priority	High
Date	27 February 2012
Comments	The budget setting report to full Council will set out the financial risks facing the Council. This will provide a basis for the calculation of non-earmarked reserves in accordance with the statutory requirement for the Director of Finance and Corporate Services to advise the Council.

Recommendation 15

Review progress against action plan agreed with officers from 2 review of the One Council programme review.

Responsibility	Director of Strategy, Performance and Improvement
Priority	High
Date	Immediate

Comments	Progress against the action plan is reviewed periodically at the One Council Programme Board

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0844 798 7070

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- any third party.

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November 2011

Annual governance report

Final report as at 24 November 2011

Brent Pension Fund

Audit 2010/11

audit commission

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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is now complete. It includes the messages arising from my audit of your financial statements.

	My findings
Unqualified audit opinion	●
Weaknesses in internal control	●

Audit opinion and financial statements

- My audit is now complete and I propose to give an unqualified audit opinion on the financial statements.
- The draft financial statements were submitted for audit by the due date, were substantially complete and were supported by good working papers in line with my expectations.
- Exchequer services are responsible for the preparation of the pension fund statements. Whilst the department experienced some problems during the year due to the introduction of the new Oracle system, the migration of balances to the new system was well controlled and good year end closedown arrangements were in place to ensure financial statements of reasonable quality were produced.
- The financial statements submitted for audit were free from material error. Following submission of the draft financial statements for audit, management identified one non-trivial error which has been adjusted. During the course of my audit I identified some missing or incomplete disclosures which officers have also adjusted.
- Overall I have not identified any significant weaknesses in the pension fund's internal controls.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.
I ask you to confirm to me	**I ask the Audit Committee to:** ■ take note of the adjustment to the financial statements which are set out in this report (Appendix 2); and ■ approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion.
Audit fees	I have completed my work on the pension fund audit within the planned fee of £35,000 reported in my opinion audit plan.

Financial statements

I propose to give an unqualified opinion on the pension fund financial statements. The financial statements submitted for audit were free from material error. Following submission of the draft financial statements for audit, management identified one non-trivial error which has been amended. During the course of my audit I identified some disclosure matters that have also been adjusted.

During the year the pension fund's main financial system was moved onto a Council wide new Oracle system. Officers ensured that the migration of pension fund balances to the new system was properly documented and well controlled. Senior officers monitored the year end closedown procedures to ensure that all control accounts and reconciliations were properly prepared and that good quality working papers were produced to support the financial statements.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

Following submission of the draft financial statements for audit, management identified the following non-trivial error:

- cash deposits were overstated by £1.169m – this adjustment was required to correctly account for cash transfers between London Borough of Brent and Brent Pension Fund.

During the course of my audit I identified various amendments to the disclosures within the financial statements (further details are set out in the table on page 7).

The Council has amended the pension fund financial statements to correct these errors.

Financial statements

The Pension Fund's financial statements are important means by which the Fund accounts for its stewardship of public funds. The Council has final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

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

Key audit risk and our findings

Key audit risk	Finding
1. Transition to International Financial Reporting Standards The Council is required to prepare the 2010/11 pension fund financial statements according to International Financial Reporting Standards (IFRS), including a re-statement of 2009/10 balances where applicable. This poses a risk of material misstatement to the pension fund financial statements.	I have: ■ reviewed the Council's approach to the implementation of IFRS; and ■ tested the accounting entries and disclosures relating to IFRS. The draft financial statements did not include an opening net asset statement as at 1/4/2009 as required under IFRS. The Council has amended the pension fund financial statements to include this. There were no other material differences to the pension fund's financial statements on transition to IFRS. I am satisfied that the pension fund financial statements have been properly compiled according to IFRS.
2. Change of financial IT system The pension fund has changed its financial IT systems during the year onto a new Oracle system that is used throughout the Council. This poses a risk of material misstatement to the pension fund financial statements.	I have: ■ reviewed the Council's arrangements to implement the new Oracle system throughout the Council; and ■ tested the migration of balances relating to the pension fund. I am satisfied that, for the pension fund, the transition to the new system has been properly undertaken and that this has not resulted in any material misstatements to

Key audit risk	Finding
	the pension fund financial statements.
3. Disclosures in the financial statement In the previous year the draft pension fund financial statements some of the disclosures required by the Statement of Recommended Practice (SoRP) were missing or incomplete. This poses a risk of incomplete disclosures in the 2010/11 pension fund financial statements.	I have reviewed the disclosures in the pension fund financial statements. The draft financial statements were submitted for audit were substantially complete, however disclosures were missing or incomplete in the following areas: ■ analysis of debtors and creditors by type of body; and ■ financial instrument disclosures. The Council has amended the pension fund financial statements for these items. I am now satisfied that the disclosures within the pension fund financial statements comply with requirements.
4. Working papers In the previous year some working papers were not easy to follow and delays occurred in obtaining responses to some audit queries raised. There is a risk that this could impact on the timely delivery and quality of the financial statements and a timely audit opinion.	I have reviewed the quality of the draft financial statements and associated working papers. The draft financial statements presented for audit were of reasonable quality and supported by good working papers in line with my expectations.
5. Actuarial revaluation The pension fund is required to obtain an actuarial valuation of the whole of the fund as at 31 March 2010. There is a risk that the details of the actuarial valuation are not fully disclosed in the pension fund financial statements.	I have reviewed the actuarial revaluation disclosures in the financial statements. I am satisfied that the disclosures within the pension fund financial statements are consistent with the information set out in the actuarial revaluation reports.

Financial statements

Significant weaknesses in internal control

Overall I have not identified any significant weaknesses in internal control.

I am not expressing an opinion on the overall effectiveness of internal control. I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. Except for the matters regarding disclosures in the financial statements, as set out on page 7, there are no other issues I want to raise with you.

Significant difficulties encountered during the audit

There were no significant difficulties encountered during the audit.

Significant matters that were discussed or subject to correspondence with management

There were no significant matters that were discussed or subject to correspondence with management.

Letter of representation

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

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT [DRAFT]

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of London Borough of Brent for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Brent's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Brent put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

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

[*Date*]

Appendix 2 – Amendments to the draft financial statements

Following submission of the draft financial statements for audit, management identified the following misstatement and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Fund account		Net asset statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Change in market value of investments Investments – cash	To correct the value of cash deposits held at the year end.	1,169			1,169
Total		**1,169**	**-**	**-**	**1,169**

The above adjustment has had the effect of decreasing the net assets of the fund by £1,169,000.
The net assets of the fund have decreased from £491,528,000 per the draft financial statements to £490,359,000 per final financial statements.

Appendix 3 – Draft letter of representation

To: Andrea White

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

London Borough of Brent and Pension Fund – Audit for the year ended 31 March 2011

We confirm to the best of our knowledge and belied, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

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

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

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the appendix.

Supporting records

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

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

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

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

Law, regulations, contractual arrangements and codes of practice

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

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

Irregularities

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

There have been no:

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

We also confirm that we have disclosed:

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

Post balance sheet events

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

Compensating arrangements

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

We confirm that this letter has been discussed and agreed by the Audit Committee on [ ] November 2011

Signed ……	Signed ……	Signed ……
Name: Gareth Daniel	Name: Clive Heaphy	Name: Stephen Wood
Position: Chief Executive	Position: Director of Finance and Corporate Resources	Position: Chair of the Audit Committee

Date ……

Appendix 4 – Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

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

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

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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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.

www.audit-commission.gov.uk

November 2011

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BRENT COUNCIL
ANNUAL GOVERNANCE STATEMENT
2010/11

1 Scope of responsibility

1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

1.3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is contained in the council's Constitution and can be found on our website at www.brent.gov.uk/constitution.nsf.

1.4 This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2 The purpose of the governance framework

2.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level of assurance. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

3 The governance framework

3.1 The key elements of the systems and processes that comprise the Council's governance arrangements are set out over the following pages against the six core principles upon which the CIPFA/SOLACE Framework is based. The six core principles being as follows:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

3.2 Each of these core principles are broken down into a number of supporting principles and these are used by the Council on an annual basis to review and summarise the key elements of the overall governance framework, as well as to identify specific actions needed to address any weaknesses and/or to achieve further improvement in the year ahead. The arrangements for reviewing the effectiveness of the governance framework are detailed in section 4 of this statement.

3.3 The tables set out over the following pages provide an overview of the key elements of the governance arrangements against the six core principles, together with any actions to be focussed upon during the 2010/11 financial year.

CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop and promote thity's purpose and vision	During the year, the Council agreed its new Borough Plan , 'Brent – Our Future', for the four year period of 2010-2014. This document includes both the corporate objectives of the Council and our shared partnerships priorities. The Borough Plan sets out the Council's vision that *'Brent will be a thriving, vibrant place, where our diverse community lives in an environment that is safe, sustainable and well maintained. All our services will enable local people to fulfil their potential and improve their quality of life. Public resources will be used creatively and wisely to produce lasting benefits for our residents and the borough. Our commitment to reducing poverty, redressing inequality and preventing exclusion will be at the heart of all our actions'*. The Plan is focused around three core objectives as follows: • One Borough – Creating a sustainable built environment that drives economic regeneration and reduces poverty, inequality and exclusion; • One Community – providing excellent public services which enable people to achieve their full potential, promote community cohesion, and improve their quality of life; and • One Council – improving services for residents by working with partners to deliver local priorities more effectively and achieve greater value for money from public resources. The Plan references other key relevant documents, including the following: • Local Development Framework; • Climate Change Strategy; • Housing Strategy; • Sports and Physical Activity Strategy (as linked to the 2012 Olympic and Paralympic Games); • Cultural Strategy; • Health and Wellbeing Strategy; • Engagement Strategy; and • One Council Programme. The priorities of the Borough Plan are regularly promoted via The Brent Magazine, the website, press releases and targeted campaigns. At service area level, service priorities are extensively consulted on with users and other relevant stakeholders. Service Plans are presented annually to Lead Members prior to finalisation.	

CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
2. Review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements	Implementation of the Borough Plan is monitored by the Executive. Implementation of Service Plans is monitored throughout the year by Corporate Management Team (CMT) and Departmental Management Teams (DMTs) using a range of embedded systems and processes. Progress against the administration's priorities is also reported to the Executive and Overview and Scrutiny Committees.	
3. Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties.	The Council's Partnerships team is responsible for supporting local partnership arrangement, known as Partners for Brent. The team co-ordinates a broad range of collaborative activities, which stem from the Council's engagement with local public, private and voluntary sector organisations. Local partners collaborate within Brent through our Local Strategic Partnership (LSP) to deliver the vision set out in the Borough Plan 'Brent – Our Future 2010-2014'. The LSP includes partners from all sectors and consists of an LSP Strategic Forum, LSP Executive and Thematic Partnerships. The LSP's focus is to understand how to ensure the best outcomes for residents by aligning the work undertaken by different organisations in the borough and engaging people effectively in change. At service area level, objectives of partnerships are documented in the Service Plans and within contract documentation.	
4. Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance.	The Council reports its performance and budgets every three months against a range of indicators. The Performance and Finance review report includes details on spending and activity as well as performance. A joint review of performance and summary of accounts is produced annually and summarised in the Brent Magazine.	
5. Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available.	The Council has a Performance Management Framework, as overseen by the Corporate Performance Team. The purpose of the Team is to strategically align all the Council's performance monitoring and reporting activity. They offer technical support and training on the Council's performance monitoring system Performance Plus, and also quality-check performance data and use this as a basis to compile key performance reports. Significant improvements have been made with regards to the quality of data used for performance monitoring, with the launch of a new Data Quality Strategy in February 2010. Below the Borough Plan the service planning framework serves as the cornerstone of the Council's approach to performance management. Each DMT is responsible for monitoring performance against	

CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	their Service Plan and for reporting this upwards as appropriate. Key groups within the overall framework include: • Executive – agree proposals and challenge and question lead members and directors; • Performance and Finance Select Committee – examine specific performance issues in detail and make recommendations to the Executive for improvement; • Overview and Scrutiny Committee – examine specific performance issues in detail and make recommendations to the Executive for improvement; • CMT – challenge the performance of the Council as a whole and has overall responsibility for achieving corporate objectives; • LSP – challenges delivery around key partnerships; • High Level Monitoring Group – chaired by the Chief Executive and examines specific performance issues, providing ongoing challenge, support and direction and tracking of improvements; • Strategic Finance Group – examines budget and activity information to assess value for money; and • One Council Programme Board – oversees the progress and achievements against the Once Council Programme. The bi-annual Residents Attitude Survey is a further source of information regarding service users' satisfaction with the services being provided. The last survey was carried out in 2009/10.	
6. Put in place effective arrangements to identify and deal with failure in service delivery.	As per section 5 above, potential service failure is identified through the various levels of performance monitoring, and then dealt with at the appropriate levels in terms of identifying and monitoring the implementation of corrective actions. Performance issues in relation to specific partner organisations / contractors are dealt with at service area level in accordance with agreed contract management procedures. Issues are escalated as appropriate.	
7. Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies,	The One Council Programme Board measures progress against the Improvement and Efficiency Action Plan which underpins the Improvement and Efficiency Strategy. The One Council Programme Management Office has established a robust project and programme methodology to ensure the t delivery of change projects and realisation of benefits. This framework includes the preparation of sound business cases for all transformation projects within the programme and identification of future efficiencies. The regularly fortnightly monitoring of project plans enables effective management of delivery, identification of risk and tracking of both financial and non-financial benefits. A monthly pup-	

CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
plans and decisions.	date on progress in reported to the Corporate Management Team. In addition the council now brings together finance, activity and performance monitoring in a single performance and finance review report which enables officers and members to have a more holistic view of progress across the council on Value for Money. In addition, development of a value for money tool-kit for managers is one of a range of measures to support managers delivering better value for money. Unit costs are also used to measure progress in key areas e.g. on the children's transformation agenda. The work undertaken by PwC in benchmarking the council's staffing structure informed the Staffing and Structure Review to ensure that our resources are aligned to service priorities.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice.	Article 2 of the Constitution describes the role of Members of the Council, the Executive, Mayor, Full Council and overview and Scrutiny.	
	Up to date job descriptions are in place for Senior Officers. Monitoring Officer Advice Notes give advice to Members on decision making and standards of conduct. Further details with regards to London Councils' positive assessment of these are set out against Core Principle 5. Local Democracy and Standards WebPages are updated regularly.	
	All Executive decisions and key decisions by officers are recorded	
2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.	Roles and responsibilities are covered in the Constitution In addition Members' Role Descriptions, which were agreed by the member Development Steering Group, have been sent to members and have been put on the member development intranet page.	
	Up to date job descriptions are in place for Senior Officers.	
3. Determine a scheme of delegation and reserve powers within the Constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensure that it is monitored and updated when required.	Clearly set out in the Constitution.	
	The Borough Solicitor maintains a register of officer authorisations. The Constitution is renewed and reported to full Council every May.	
4. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.	Covered in the Constitution and job descriptions.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
5. Develop protocols to ensure that the leader and chief executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.	Regular meetings are held between the Chief Executive and Leader, with a shared understanding of respective roles.	
6. Make a senior officer (usually the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	Covered in the Constitution and job description.	
	Covered by statute and Financial Regulations.	
	All Executive reports have to be cleared by the Director of Finance & Corporate Services. Director attends all Leader's briefings and meetings of the Executive and full Council.	
	Independent assurance on the adequacy and effectiveness of the overall systems of internal control, including internal financial control, is provided by the Council's external auditors, internal auditors and a number of other external bodies / inspectorate. Both the internal and external auditors report to the Audit Committee on a quarterly basis.	
7. Make a senior officer (other than the Responsible Financial Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with.	Covered in the Constitution and job descriptions.	
	Covered by statute and Financial Regulations.	
	All reports have to be cleared by the Borough Solicitor who attends all Leader's briefings and meetings of the Executive and full Council. A lawyer also attends all other committee meetings and is responsible for issuing the legislation tracker, monitoring officer advice notes and legal bulletins.	
8. Develop protocols to ensure effective communication between members and officers in their respective roles.	These are Covered in Part 7 of the Constitution and in the Access to Information protocol.	
9. Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel (if	The scheme of Member allowances has been reviewed by the Constitutional Working Group (CWG) and a report recommending changes to the allowances scheme went to Full Council in September 2010 whereby the changes were approved. The scheme is published annually in accordance with the relevant 2003 regulations.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
applicable).		
10. Ensure that effective mechanisms exist to monitor service delivery.	The PerformancePlus system is now fully operational across the Council and a standard service planning template and guidance was refreshed in 2010 with a focus upon delivering the Improvement and Efficiency objectives. Performance and service monitoring have been covered in detail under Core Principle 1.	
	An integrated quarterly Performance and Finance monitoring report is now produced. This is reviewed by the Executive, CMT and the Performance & Finance Select Committee.	
11. Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.	The Borough Plan 2010-2014 sets out the aim to *'empower people by providing more opportunities for them to engage with local elected members on decisions affecting their area at ward forums'*. A new Brent wide Engagement Strategy has been formulated and agreed, setting out the *'ambition of the council and partners to inform, consult, engage and involve our communities in all aspects of service provision from design through to delivery'*. There are a range of ways in which the local community and other key stakeholders are consulted. Key ones include: • The Brent Magazine is regularly distributed to households, promoting Council policy and initiatives, and providing information on available services and consultation events. • The triennial Residents' Attitude Survey (RAS) is the principal measure of resident satisfaction with the area and with council services. The last survey was conducted in 2009 – a further survey would be scheduled for 2012. Findings from the RAS are fed into service planning and policy development programmes. The RAS is also used as an opportunity to recruit and refresh the Brent Citizens' Panel. • The Ward Working initiative focuses on members working in their communities to address local priorities and improve the way services are delivered on a neighbourhood level. • The Council's website is another key point of engagement, both with regards to publicising and communicating key information, as well as providing residents with the opportunity to access services via web technology. • There are five Area Consultative Forums (ACFs), each chaired by a councillor, with meetings open to all members of the public. At each meeting, there is also a 'Soapbox slot' for residents to express their views and concerns about issues that affects them directly or indirectly. • Outcomes of formal consultation are fed back through the Consultation Portal website. • A new website, 'Bmyvoice', was launched in March 2010, specifically for engaging and	Decision needs to be taken on whether ot not the Council will have a Resident's Attitude Survey in 2012. Recruitment to the Citizens' Panel is continuous through the Council's website and at area forums. A RAS in 2012 would provide an opportunity to completely refresh the citizens' panel. (Head of Consultation) Social media protocols to be introduced and consideration to be given to the possible use of social media in

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	communicating with Brent's younger residents. • The Brent Local Involvement Network (LINk) is an independent network, of residents, local charities, community groups and people who work in the borough who have an interest in improving health and social care services in and around Brent. A transitional contact for 2011/12 has been entered into. This will prolong the life of the LINk for a further year until the establishment of Local HealthWatch. • Staff are consulted via the annual Staff Survey, as well as on an ongoing basis as appropriate. Developments and initiatives are also communicated via the staff magazine, 'Insight', and the intranet. Additional workshops / meetings are also run as appropriate, for example, roadshows were held to communicate the new Corporate Strategy. The Borough Plan 2010-2014 stresses that *'our engagement and consultation activities will take into account the need to reflect the diverse needs of our population and seek out the views of all sections of the community'*. We are working towards achieving 'Excellence' level of the national equalities framework by 2012.	consultation channels. (Head of Communications and Marketing) The replacement of local LINks with local HealthWatch will be the subject of Dept of Health guidance to be issued in 2011. (Head of Consultation)
12. When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.	The term 'partnership' is defined in the Constitution and a partnership map has been established.. Protocols and guidelines for the operation of joint working have been agreed by the LSP and covers roles and responsibilities, protocols for financial administration and staff management. Further details regarding the performance management of partnerships is set out against Core Principle 1.	
13. When working in partnership: ensure that there is clarity about the legal status of the partnership ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	Guidance on the legal status of partnerships is provided by the Borough Solicitor as appropriate.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.	Executive members have undertaken a range of training including media and presentation skills, and key members have had support from an external mentor. Further details regarding member training are set out against Core Principle 5, including details of the positive assessment made by London Councils in this area. The Member Code of Conduct includes the 10 general principles of conduct, including respect for others, leadership and stewardship. The Constitution contains the Planning Code of Practice, Licensing Code of Practice, Code of Practice on Publicity and the protocol for Member Officer Relations. Members and Chief Officers work collaboratively on the Policy Co-ordination Group, Leader's Briefing, Service Planning and Budget Awaydays. The Leader meets weekly with the Chief Executive and also addresses the Corporate Roadshows and the Senior Managers Conference.	
2. Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	A new Code of Conduct for Officers was agreed in 2005 and re-issued in 2010. Other codes, including the IT Usage Policy and Harassment Policy are all held on the intranet and are subject to regular review. Staff are made aware of their responsibilities through general communications, such as the Chief Executive Newsletter, Insight Magazine and via attachments to payslips, as well as at team briefings.	
	The Brent Member Code of Conduct reflects the model code published by the government.	
3. Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	The Constitution contains various other codes including: Licensing, Planning, Member Officer relations. Advice notes are issued by the Borough Solicitor regarding conduct.	
	The registers of Members' interests and Members' gifts and hospitality are now placed on the web site enabling easy public access.	
	A new Conflict of Interest Policy for staff was issued in December 2009. This provides clear guidance regarding contractual and other potential conflicts. A new Gifts and Hospitality Policy for staff was also issued in January 2010. Both policies have been rolled out across the Council. In both cases they make reference to the Prevention of Corruption Acts 1889-1916, as well as the Local Government Act 1972. The new Bribery Act 2010 comes into force on 1 July 2011 and hence both policies now need to be further reviewed and updated in light of this, taking account of the	Both policies to be further reviewed and updated in light of the Bribery Act 2010. (Borough Solicitor) Ensure new Conflict

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	finalised guidance on 'Adequate Procedures' as issued by the Ministry of Justice in March 2011.	of Interest Policy and Gifts and Hospitality Policy are embedded (Service Area Directors)
4. Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners.	The Member Code of Conduct includes reference to Leadership and Stewardship and other values. The Code of Conduct and competency framework which has been developed for managers and staff together with a management charter sets out the expected behaviours for officers, including Leadership and working with others.	
5. Put in place arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	Standards of conduct for Members are set out in the Constitution. Protocol for Member/officer relations is set out in Constitution. Standards Committee has remit to monitor compliance.	
6. Develop and maintain an effective standards committee.	The terms of reference for the Standards Committee are set out in the Constitution. The Committee has an independent chair and vice chair and two alternate independent members available The Committee has an annual work programme and is supported by the Borough Solicitor.	
7. Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.	The organisation's shared values are reflected in various policies and procedures, such as the Planning Code of Practice and its Access to Information Rules, both which encourage transparent, informed and well reasoned decision making. These are reinforced by the guidance notes issued to members from time to time in the form of Monitoring Officer Advice Notes and in legal bulletins. The Corporate Strategy also includes clear corporate values for the Council. The One Council programme requires an explicit framework that recognises the importance of high standards in relation to personal behaviour, professional conduct and organisational governance.	
8. In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values	The members of the Partners for Brent Executive have agreed terms of reference and roles as part of their governance arrangements. These establish the expected values and behaviours for effective partnership working. These include a commitment to addressing inequality, focusing on preventative actions and achieving value for money through greater collaboration.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
must be demonstrated by partners' behaviour both individually and collectively.	The corporate policy team is working closely with representatives of the voluntary sector to develop a new compact setting out principles for collaboration with the voluntary and community sectors.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the organisation's performance overall and of any organisation for which it is responsible.	The Executive are responsible for the implementation of policy and ensuring the effectiveness of service delivery.	
	Scrutiny is responsible for monitoring the performance of the Executive. The Overview and Scrutiny Committee receive regular up-dates on the delivery of the One Council programme and performance monitoring. The programme of member led task groups enable non executive members to consider matter of concern to local communities and make recommendations for action to the Executive.	
	The Corporate Management Team (CMT) monitors delivery of the One Council programme through a Programme Board and a Programme Management Office.	
	The Chair of Overview and Scrutiny is given an opportunity to report back to every full Council meeting. Call in arrangements in the Constitution allows Overview and Scrutiny to review decisions made by the Executive. Mechanisms are in place to able to scrutiny of Executive decisions before they are made.	
	Further details regarding scrutiny in the context of performance management have been set out against Core Principle 1.	
2. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. Although some decisions are reserved for Full Council, most are made by the Executive or by committees, sub-committees or officers. There are currently no decision making powers delegated to individual Members. In accordance with the Local government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process including call-in and question time. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.	
	Decision making meetings of the Executive are open to the public.	
	Copies of reports and decisions are available on the intranet and through the One Stop Shop and Libraries.	
	All meetings are clerked by well trained and experienced committee support officers and lawyers are present to provide advice on law and procedure.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
3. Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	The registers of Members' interests and gifts and hospitality are now placed on the web site enabling easy public access.	
	The Monitoring Officer prepares an annual report to the Standards Committee.	
4. Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for the discharge of the functions of such a committee.	The Audit Committee has met quarterly during the year. The terms of reference are set out in the Constitution.	
	The provision of the internal audit function within the Council is through the Audit & Investigations Team, working in partnership with Deloitte & Touche Public Sector Internal Audit Ltd. The Audit Committee approve the annual Internal Audit Plan and receive progress reports at each quarterly meeting.	
	External audit is provided by the Audit Commission. Their plans, interim reports and annual audit letter are all presented to the Audit Committee.	
5. Put in place effective transparent and accessible arrangements for dealing with complaints.	The Council has a well regarded corporate complaints procedure that has been praised and endorsed by the Local Government Ombudsman (LGO) in previous years. The Corporate Complaints Policy was revised and reissued in January 2011, together with a new Corporate Complaints Manual. The complaints service is headed by our Corporate Complaints Manager, working with complaints managers and teams across the departments. This reporting line into the Corporate Complaints Manager was introduced in October 2010, and represents a positive move towards further promoting consistent, joined up complaints management across the Council. The 2009/10 Annual Report on complaints performance was presented to the Overview and Scrutiny Committee in December 2010. As such, this noted that the number of complaints had increased by 5% in comparison to the previous year. However, this is linked to the scale of changes taking place across the Council, and, on the basis of the further developments made to the way in which complaints are now being handled, the projection for 2010/11 was for a decrease in complaint numbers of 70%. In total, 77 complaints were investigated by the LGO during 2009/10. For the third year running, no formal reports were issued against the Council as a result of this. Only seven complaints resulted in local settlement, which represents one of the lowest settlement rates in London.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
6. Ensure that those making decisions whether for the authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.	Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing guide and have to be cleared by both Finance and Legal. The Executive receives a briefing (Leaders Briefing) two weeks prior to the Executive meeting when members can ask detailed technical questions of officers.	
7. Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately.	All reports must be cleared by Finance and Legal and contain financial and legal implications. Legal and Finance officers are available as needed to give clear robust advice	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
8. Ensure that risk management is embedded into the culture of the organisation; with members and managers at all levels recognising that risk management is part of their job.	The Risk Management Strategy was previously revised and was presented to Audit Committee in December 2008. A revised Corporate Risk Guidance document was also subsequently produced and circulated across the Council. Risk management training for Members took place in March 2009. As part of the above: • The Executive / Council consider risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects; • The Policy Co-ordination Group, combining the Executive and Corporate Management Team, review corporate risks through regular Corporate Hotspots monitoring reports. Corporate Hotspots include the highest category – likelihood and impact – of cross-council level and service area level risks, e.g. significant risks to the achievement of key strategic objectives, to the finances of the authority, to the health and well-being of residents and/or staff, or to the reputation of the authority. • The Strategic Finance Group review high level finance risks through regular Financial Hotspots monitoring reports. Financial Hotspots are identified and reviewed across each of the service areas on a monthly basis by the Strategic Finance Group. In each case the risk is assessed in terms of the minimum and maximum impact from a monetary perspective. In addition, an indication is provided as to whether the risk has been included in the year-end forecast for each Service Area, thereby providing a link between risk management and budget monitoring; • Risks within the One Council programme are fully documented within the reporting framework of the programme. These are reported fortnightly to the Programme Board and a risk log is maintained. These are project risks and are not separately identified within the Risk Register. Operational risk arising from the One Council change programme feed into departmental registers; and • Risks are identified within Service Plans and considered on an ongoing basis by DMTs during the course of the year. Further work is now being undertaken to further develop and embed the framework across the Council during 2011/12. This will be focused on ensuring that risks are assessed in a consistent manner across all service areas, and that a consistent language is used in the identification of risk. In addition, work will be undertaken to identify the sources of assurance in respect of the key controls in place to manage risks, including internal management assurances, and the arrangements for collecting and reporting on these will be formalised.	Further work to be undertaken as outlined opposite. (Head of Audit & Investigations)

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
9. Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access.	There is a Whistleblowing Policy in place. This has been publicised to staff and is on the intranet under 'Raising Concerns'. Whistleblowing allegations are dealt with, in the first instance, by the Audit & Investigations Team.	
10. Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities.	See above section 6. In addition, regular Monitoring Officer Advice Notes are issued. Regular training is provided to ensure Members understand areas of risk. Further details with regards to London Councils' assessment of the quality of member training and the Monitoring Officer Advice Notes are set out against Core Principle 5 below.	
11. Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law.	See above section 6. In addition regular Monitoring Officer Advice Notes are issued. Advice is tailored and specific regarding the Authority's capability and capacity to take relevant action including liability of the organisation	
12. Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice into their procedures and decision making processes.	Legal comment and consultation on reports. Monitoring Officer Advice Notes issued and Legislation Trackers in place.	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	The Council runs a Member development programme which is reported to the Standards Committee annually. The Borough Solicitor provides training to new and existing Members on decision making and standards of conduct. A comprehensive induction programme was delivered for members following the local elections in May 2010. This included both general induction and service specific sessions. Further member development events were subsequently held during the course of the year, and 34 councillors formulated and agreed individual Personal Development Plans (PDPs). As reported to the Standards Committee in the annual Review of the Member Development Programme May 2010-April 2011, the Council has been awarded the London Councils' charter for member development excellence. This lasts for three years, after which there will be a need for reassessment. The report from London Councils noted that *'Brent Council has worked very hard to introduce ways of providing support to its members and helping them to develop their skills and knowledge. This not only benefits the councillors themselves, but also ensures that their residents receive the best possible leadership and services from their local council.'* In relation to standards, the assessors found that *'Brent's good practice on standards is widely recognised and there is now an annual working event with councils in the West London Alliance and more recently also included Barnet, Islington and Kensington & Chelsea'*. The assessors were also very impressed with the Monitoring Officer Advice Notes for members. Going forwards, the member development programme will continue to be focused on specific needs identified through the PDPs. In addition, the Council is in the process of purchasing an e-learning package which will link into the Political Skills Framework tool purchased in conjunction with Harrow Council.	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	For officers, it remains a key policy of the Council to provide all new staff with an informative induction that explains the structure and work of the Council and the relationships between different parts of the organisation. It is also an important way of ensuring new staff understand the values of the organisation and the part they will play in supporting the achievements of its goals. Last year we had a target to improve the induction process and take-up on the corporate course and to address this; we have introduced a policy framework to include individual, local and corporate induction. All new entrants are also expected to attend a course within their first three months of being in the Council. The induction process marks the beginning of the relationship between the Council and all new starters are set up with e-learning accounts to complete the mandatory e-learning modules and also to complete a personal and/or any local induction programmes. The programmes are fundamental in setting standards and influencing patterns of behaviour conducive to working well with partners, colleagues and delivering excellent customer services. The key objectives of the corporate induction programme are for delegates to: • Understand the organisations aims, values and the standards of behaviour and performance expected; • Have an opportunity to identify and resolve at an early stage any concerns, issues or queries they may have relating to their employment; and • Feel engaged and enthusiastic about working at Brent.	A concerted plan to ensure all new starters attend mandatory induction is required. CMT to monitor and ensure compliance within departments. (Head of Learning & Development and Strategic HR Managers)

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation.	During the induction process officers are introduced to key personnel and statutory roles. On an individual level, each officer has a job description and person specification, which clarifies their role and identifies the knowledge, skills and competence required to undertake that role successfully. Each year officers have an annual appraisal containing developmental objectives and plans linked to providing them with any required support to enable continuous professional development, to bridge any skills or knowledge gaps and also to support the achievement of statutory goals and to meet Service Plans. The Council's Corporate Learning and Development policy, plans and service offering are based on corporate, strategic and service needs and also individual needs identified in team plans and individual appraisals. Statutory officer are encourage to maintain their CPD's, participate in and attend external forums to maximise their learning and to development good practice networking and sharing learning to improve service delivery. Adult Social Care and Children Social Care Professional training teams have come together under one manager and have join the corporate team, this year, to form a more diverse team with a higher level of creativity and capacity to meet professional and corporate needs. A new People strategy 2010-14 was created during this financial year and it also includes workforce development gaps and plans for building capacity and capability in the Councils' Workforce. The workforce development plan highlight actions and success criteria around six people priorities and will address the needs of statutory officers as appropriate. The six priority areas are as follows: • Develop strong leadership via the new Brent management model; • Streamline and re-configure the organisation on One Council principles; • Support effective change management that delivers timely results; • Build an agile and efficient workforce that adapts easily to change; • Close skills and resources gaps by developing and reskilling staff; and • Attract, retain and develop highly motivated, diverse and talented people.	The People Strategy and Workforce Development plan will be monitored and evaluated to identify achievements against the success criteria and taking the Council's agenda forward. To ensure the learning and development programme is aligned to meeting the specific needs of statutory officers. (Head of Learning & Development and Strategic HR Managers)
3. Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.	As per Core Principle 5, section 1, with regards to assessing and developing members' skills.	
	The Council has a new People Strategy which is accompanied by a comprehensive Workforce Development Plan. This has identified the key skills and key learning and development that will ensure that the skills of the managers and workforce are enhanced to improve performance and deliver the Councils agenda. The introduction of Performance and Talent Management system will enable managers to better assess key competencies; development plans and to check on progress against the objectives which have been set for staff. This technological solution enables management information to be more easily	Further embedding of the generic core management competencies and tasks will be achieved through one of the work

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	extracted and monitoring of appraisals will be more dynamic and achievements monitored in real time. Staffing and Structure project began the process of the introduction of generic management job descriptions which will embed corporate expectations and a common understanding of the management role.	streams of the Review of Employee Benefits project. A corporate programme to support the Role of the Manager will begin in July 2011.
4. Develop skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.	The annual review of the Member development programme was reported to the Standards Committee in March 2011, as detailed above at section 1.	
	The Learning & Development Plan and service offering reflect the skills and knowledge required to deliver the Corporate Strategy and is reviewed on an annual basis to ensure continuing improvement and alignment to the goals of the Council. Individuals are encouraged to develop through their annual appraisal, six monthly reviews and regular one-to-ones which focus on improving performance and achievement of corporate/departmental objectives. A new appraisal system has been developed based on the competency framework which includes providing a customer focussed service, and leadership and influencing skills. The corporate training offering also offers courses on customer care and working with partners. As indicated above, the Council has an annual corporate Learning & Development programme based on strategic objectives including the Council's performance improvement priorities. A national performance management training programme has recently been piloted for staff in conjunction with the corporate Policy and Performance team. The annual review of the Member development programme was reported to the Standards Committee in March 2011, as detailed above at section 1.	Achieving higher levels of staff appraisal is a priority for the organisation to focus on improving performance. A review of the appraisal scheme to improve implementation and quality is required. (Head of Learning & Development)
5. Ensure that effective arrangements are in place for reviewing the performance of the authority as a whole and of individual members and agreeing an action plan which might for example aim to address any	Standards for performance are set out in the Corporate Strategy and individual Service Plans. Quarterly reports on service and financial performance are produced and considered by the CMT, Executive and Performance & Finance Select Committee. This includes performance on key partnership targets. A summary of the Council's performance is published each year in the Brent Magazine and delivered to all households.	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
training or development needs.	All performance data is available on the Council's website. As above under section 4, individual officer performance is assessed through the formal appraisal system.	
6. Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.	As per Core Principle 2, section 11. In addition: • There are Service User Consultative Forums (SUCFs) which include: Pensioners forum; Black and Minority Ethnic forum; Voluntary Sector forum; Private Sector Housing forum; and Brent Disabled User forum; and • The Youth Parliament has been operating since March 2007 and provides an opportunity for children and young people to present their views to the Council. The Youth Parliament worked on the development of the 'Bmyvoice' website that was launched in March 2010.	
7. Ensure that career structures are in place for members and officers to encourage participation and development.	The Council has a new People Strategy which is accompanied by a comprehensive Workforce Development Plan. This has identified the key skills and key learning and development that will ensure that the skills of the managers and workforce are enhanced to improve performance and deliver the Councils agenda. The introduction of Performance and Talent Management system will enable managers to better assess key competencies; development plans and to check on progress against the objectives which have been set for staff. This technological solution enables management information to be more easily extracted and monitoring of appraisals will be more dynamic and achievements monitored in real time. Staffing and Structure project began the process of the introduction of generic management job descriptions which will embed corporate expectations and a common understanding of the management role.	Complete work in relation to career pathways, generic job roles and talent management. (Assistant Director, HR)

CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Make clear to themselves, all staff and the community, to whom they are accountable and for what.	Council policy and services are promoted to residents via The Brent Magazine produced monthly, the Council website and wider media. Neighbourhood Bulletins are produced for each of the 21 wards twice a year to directly communicate response to issues raised by local residents. Use the staff magazine - Insight, the intranet, and internal briefing programme to communicate with staff.	Continue using and further developing / improving all forms of communication. (Head of Communications and Marketing))
2. Consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required.	As per Core Principle 2, section 11. The new Engagement Strategy2010–2014 was developed in line with the new duty to inform, consult and involve, and the requirements of the Comprehensive Area Assessment (CAA) process. Although the CAA has now been abolished, the importance of consultation and the principles behind it remain. The Consultation Portal will be further developed to establish more effective ways of evaluating consultation activity.	Consultation Board to recommend a review of the current arrangements for a consultation portal. (Head of Consultation)
3. Produce an annual report on scrutiny function activity.	An annual report is presented to the Overview & Scrutiny Committee in July each year.	
4. Ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively.	The Brent Consultation Board, established 2009, scrutinises all major consultation projects. The Consultation Board oversaw the development of the new Brent Engagement Strategy. The new strategy promotes evaluation of consultation and engagement activity.	Core training on consultation strategy and techniques being developed. (Head of Consultation)
5. Hold meetings in public unless there are good reasons for confidentiality.	All meetings are held in public. Some parts of meetings are held in private when exempt or confidential information might be disclosed. This is subject to the agreement of the members present.	

CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
6. Ensure arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.	As per Core Principle 2, section 11, and Core Principle 5, section 6. In addition to the SUCFs which cover Pensioners, Black and Minority Ethnic, Voluntary Sector, Private Sector Housing and Disabled Users, other consultation, voluntary sector and user groups are currently being mapped by the Consultation Team.	Mapping of other consultation and voluntary sector groups is ongoing. (Head of Consultation)
7. Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users including a feedback mechanism for those consultees to demonstrate what has changed as a result.	A Communication Plan for 2010-2011 was agreed by CMT with an action plan to be provided. All major consultations need to be referred to the Consultation Board at the planning stage. New Brent Engagement Strategy sets out standard for ensuring proper feedback to consultees.	A revised Communication Plan and action plan to be developed for 2011-2012. (Head of Communications and Marketing) Review of consultation portal in progress. (Head of Consultation)
8. On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period.	As per Core Principle 1, section 4. The Annual Review was published in October 2010 as part of The Brent Magazine.	Annual Review for 2011 to be produced in The Brent Magazine. (Head of Communications and Marketing)

CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
9. Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	All Committee Reports, Agendas and Minutes are made available through the Council's web site.	
10. Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	The Council's managing change policy includes guidance on staff and trade union consultation. A draft engagement policy has also been developed. The role of the line manager in people management has been documented and is shortly to be published which includes guidance on engagement. The content of this is being incorporated into the Council's new people management courses.	

4 Review of Effectiveness

4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit & Investigation's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is described below:

The Council

- Has monitored performance against the Corporate Strategy Objectives by taking an annual report and has set the annual budget in accordance with the Corporate Strategy priorities;
- Receives the annual budget report which summarises the financial position and the transactions for the year and considers the annual performance plan; and
- Has agreed a Constitution which sets out the decision making structure, delegated authority, standing orders and financial regulations. These underpin the internal control framework.

The Executive

- Makes key decisions in accordance with the Budget and Policy Framework;
- Meets with the Corporate Management Team twice per year to consider the medium term financial strategy and its linkages with the council's policy priorities; and
- Meets monthly with the Corporate Management Team to receive an update on the Council's financial position and monitoring reports from the Strategic Finance Group.

The Audit Committee

- Has met four times during 2010/11 and has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter;
- Maintains an overview of the Council's Constitution in respect of contract standing orders and financial regulations;
- Monitors the effective development and operation of risk management and corporate governance in the Council;

- Reviews the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council; and
- Monitors the Council's Treasury Management policies.

The Standards Committee

- Receives reports from the Council's Monitoring Officer on issues concerning member conduct and would consider reports referred from Ethical Standards Officers or the Monitoring Officer which require investigation and/or determination.

The Forward Plan Select Committee

- Enables pre-scrutiny of Executive decisions by non-executive members.

The Budget & Finance Overview & Scrutiny Committee

- Participates in the budget setting process by examining the robustness of the budget; the ability to deliver savings; key revenue budget outputs and decisions; and key capital budget outputs and decisions.
- It also considers individual areas such as Adult Social Care, Waste Strategy, Customer Contact and Revenues and Benefits.

Audit & Investigations

- Provide assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Produce an Annual Audit Report including the Head of Audit annual opinion on the Council's internal controls; and
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Service Directors and copied to the relevant Service or Corporate Area Director. Recommendations for improvement are made in each report. Each significant audit report is followed up after a suitable period and any failure to implement recommendations is noted and reported back to the relevant director and the Audit Committee.

External Audit

- The Director of Finance & Corporate Services meets with the Council's external auditors on a regular basis and, if appropriate, they raise any concerns they have regarding the internal control environment. These meetings become more frequent during the closing of the accounts process when any material weaknesses or issues are raised.

4.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant Governance Issues

5.1 Set out below are a number of significant governance issues which have been identified, together with a summary of the actions taken to date, or which are being proposed for 2011/12 to deal with these.

We have included an indication as to the progress made against those issues raised in the 2009/10 Annual Governance Statement.

- The One Council programme has continued to progress during 2010/11 and robust governance arrangements are in place to manage this. Delivery against this programme is fundamental to the financial health of the Council and to the delivery of efficient and effective services to the public. This remains the key area of focus for the Council going into 2011/12.
- One of the key drivers of the One Council programme is the need to achieve significant savings over the period 2010-2014. Following the severe funding cuts made by central Government during the year, coupled with additional demands on services, the Council needs to make savings of £41.7million in 2011/12. £21million is expected to come from the One Council programme, leaving the remainder to be found through other means. Over the two year period ending September 2011, it is expected that up to 700 posts will have been cut from the Council's establishment including more than 100 management posts. Whilst a proportion of the overall reduction relates to the deletion of vacant posts, this represents a challenge in respect of maintaining service delivery and appropriate spans of control. Separate to staffing, the Council is also looking at all its services to identify possible further areas for savings. Consultation with residents and all other key stakeholders has been, and will continue to be of significant importance during this period as well as ensuring that equalities issues are fully considered and addressed.
- In September 2010, the Council introduced a single accounting system (Oracle) to replace a multitude of departmentally based systems. The introduction of Oracle necessitated major changes in financial controls and processes and significant changes in roles and responsibilities for finance team across the council. This change, which took place midway through the financial year, also coincided with the introduction in local government of International Financial Reporting Standards (IFRS) which heralded major changes in accounting standards and the presentation of financial statements. The combination of these changes in one single year has generally been smooth but has not been without its challenges and the year end audit process will present risks in terms of the quality and timing of work.

- Allied to this, the Council has been required to review it core accounting procedures (e.g. bank reconciliations etc.) in order to support the production of its financial statements on Oracle. It is clear that further improvements need to be made to streamline these procedures and aid the faster closing of the accounts
- The Council has been progressing with the construction of the new civic centre, which is expected to be in use by March 2013. As well as significant financial benefits, there are also significant risks associated with the project, given its scale both in capital terms and in respect of the changes it will bring to ways of working and the rationalisation of the Council's property portfolio. However, as with the One Council programme, there are robust governance arrangements in place to manage this. The new building is expected to be the 'greenest' public building in the UK, with a BRE Environmental Assessment Method (BREEAM) 'Outstanding' rating. It is forecast to deliver net savings of between £2.6m - £4.3m per year through reduced rental, running and maintenance costs.
- The Government's decision to abolish the Building Schools for the Future (BSF) programme during 2010/11 had a significant impact on the Council. Four schools had been allocated a total of £80million under the programme.
- Moving forwards into 2011/12, Children & Families have identified a potential of approximately 188 unplaced Reception pupils for September 2011. Actions are being determined to avoid the Council failing to meet its statutory duty to ensure sufficiency of school places, but this represents a key area of challenge.
- The collapse of the Icelandic banks left the Council with two outstanding deposits: one for £10m with Heritable Bank and one for £5m with Glitnir Bank. The Council has been working with other local authorities, the Local Government Association (LGA) and other organisations such as the Chartered Institute of Public Finance and Accountancy (CIPFA), to recover the two loans or to mitigate the effects of non-recovery. Members have been updated on the position throughout, and the Treasury Management Strategy and Annual Investment Strategy for 2010/11 reflected this. With regards to recovery, the position has improved since the time of the 2009/10 Annual Governance Statement. £5.5 million has now been recovered from Heritable Bank, plus 45% of the accepted interest. It is now expected that at least 80% of the original investment will be recovered, and hence £2million has been written off in the 2010/11 accounts, although the position may improve. The position in respect of Glitnir was resolved in November 2011 in favour of the Council and the recovery of almost all of the investment is expected in early 2012.

- Environment & Neighbourhoods continue to recognise monitoring and forecasting of income as a key risk, together with the actual level of income received in key areas including parking, planning, land charges and building control. Waste management costs have also been difficult to forecast. This has been identified in previous years and work has been progressing on developing more sophisticated models of the financial performance in these areas. Further work is needed though in 2011/12, both in respect of waste management and the parking account.
- As in previous years, the service for children with disabilities and children's Social Care Placements within Children & Families reported a significant budget overspend. Measures for resolving this continue to be worked upon as part of the transformation review being undertaken within the One Council programme. Expenditure relating to Special Education Needs (SEN) Statements has also continued to increase, with a further overspend of approximately £2.7million in 2010/11 in additional to the cumulative overspend of £3.0m already being tackled. Measures to address this will be actioned through consultation with the Schools Forum during 2011/12.
- Some concerns were raised in 2009/10 regarding the governance arrangements across the schools. In addition to actions being taken by Children & Families, a significant proportion of the 2010/11 Internal Audit Plan was allocated to auditing the schools, including all foundation schools. As part of this, a key issue was identified in respect of leasing arrangements that had been entered into without the review and approval of the Council's Director of Finance. In nine schools, this has resulted in significant issues from a value for money perspective. Joint action is now being taken between Children & Families, Finance & Corporate Services, and Legal & Procurement, partly to assist these nine schools, but also to help ensure that such issues do not arise in future. Concerns were also raised in respect of the salaries of a small number of Head teachers which contravened Department for Education guidelines. This has been brought to the attention of the Governing Bodies concerned.
- Also connected to the schools, significant control failures were identified in relation to the education capital portfolio, following the transfer of responsibility from Children & Families to the newly formed Regeneration & Major Works department. These have been largely rectified in-year and there are now clear governance arrangements in place involving legal, finance and procurement staff as appropriate. A protocol is being developed which head teachers and chairs of governors will be required to follow prior to any future capital works being submitted to the Council's Executive for approval. Connected to this, but on a Council wide level as opposed to just the schools, a new Project Management Framework has also been developed and will be rolled out in 2011/12, so as to help ensure that construction works and other major projects are managed in an effective and consistent manner across the Council going forwards.

- Adult Social Care has had significant difficulties in managing its overall budget in recent years, and this continued to be an issue in 2010/11. As part of the One Council programme, significant transformation work has been progressing in this area, with a view to both improving service delivery, but also seeking to achieve savings and hence improve the overspend position. Connected to this, various measures are being taken to control overspending during the year, but this can conflict with the rising number of clients who meet the Council's eligibility criteria in respect of being entitled to a care service. Measures to control discretionary spending have been of limited effectiveness in the past. Budget monitoring in this area is currently being reviewed and the transformation programme will continue into 2011/12.

- During the course of the year Brent Housing Partnership has been purchasing homes for temporary accommodation under the settled homes initiative backed by loans of more than £54m from the Council. Whilst the scheme appears generally to be operating well, a number of problems arose in respect of out-of-borough purchases which suggest that in this specific area, internal controls, including financial controls, are not as robust as required. Work is being undertaken to strengthen these controls and ensure that no repetition can take place in the current or future years.

5.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: …… ……..

Councillor Ann John
Leader of the Council

Gareth Daniel
Chief Executive

Audit Committee
15 December 2011

Report from the Director of Finance and Corporate Services

For Information

Wards Affected:
ALL

Audit Commission Progress Report 2010/11

1. Summary

1.1. The purpose of this report is to present the Audit Commission's progress report for 2010/11. Representatives of the Audit Commission will present the report.

2. Recommendations

2.1. That the Audit Committee note the content of the progress report.

3. Detail

3.1. The progress report sets out progress against the Audit Commission's planned work for 2010/11 including the statutory audit of the council's accounts and provides a summary of national reports.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. 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

Progress report

December 2011 (as at 2 December 2011)

London Borough of Brent

Audit 2010/11

audit commission

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Audit progress

Audit plan 2010/11

1 The purpose of this progress report is to inform the Audit Committee of progress against the 2010/11 audit plan, which is now complete with the exception of our review of the Council's Whole of Government Accounts (WGA) consolidation pack. We hope to certify the Council's pack by 15 December. However, at the time of writing, the Council has not provided this pack for audit.

Forward plan for the audit

2 Appendix 3 sets out a draft forward plan and a schedule of reports I will present to the Audit Committee over the course of the coming year and my suggestions for items the Audit Committee should consider with regard to the external audit of the Council.

Recent Audit Commission reports

3 The Audit Commission publishes independent reports which highlight risks and good practice to improve the quality of financial management in local government and the health service and encourage continual improvement in public. Some of the recent reports are summarised in Appendix 2 and are also available on the Audit Commission website at: http://www.audit-commission.gov.uk/Pages/default.aspx

Contact details

4 If you would like further information on any items in this briefing, please feel free to contact me or Paul Viljoen, your Audit Manager.

5 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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Appendix 1 External Audit Position Statement

Table 1: **2010/11 audit progress**

Item	Issue date	Status	Officer contact
Audit fee letter	June 2010	Final	Chief Executive
Opinion audit plan	Feb 2011	Final	Director of Finance
Interim audit memorandum (progress report	Jun 2011	Final	Director of Finance
Annual governance report	Nov 2011	Final	Director of Finance
Opinion on the financial statements	Nov 2011	Final	Director of Finance
Value for money conclusion	Nov 2011	Final	Chief Executive and Director of Finance
Annual audit letter	Nov 2011	Final	Chief Executive and Director of Finance

Appendix 2 Recent Audit Commission Reports

Joining up health and social care - improving value for money across the interface (1 December 2011)

'Joining Up Health and Social Care - Improving Value for Money Across the Interface' is the second in the Audit Commission's series of briefings looking at adult social care.

At a time when the whole of the public sector must find significant savings, the report says that integrated working across health and social care offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' where savings made by one organisation or sector create costs for others. And a lack of integrated working means that people are less likely to receive the best care.

But the briefing also finds that the NHS and councils have made patchy progress in improving this joint working across health and social care.

The briefing offers guidance to local partnerships, setting out a list of questions to consider, and suggestions for interventions that might help. Case studies show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

NHS and social care partnerships can benchmark their performance against others by using the tool that accompanies the briefing.

A copy of the Audit Commission's 'Joining Up Health and Social Care' report can be found at http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/joininguphealthandsocialcare.aspx

Tough times - councils' responses to a challenging financial climate (17 November 2011)

'Tough Times' is a new report looking at councils' responses to a challenging financial climate. The report contains new Audit Commission analysis of revenue account (RA) data provided by councils to the Department for Communities and Local Government (DCLG). It also summarises the findings of a survey of all local government auditors which gathered their emerging views on the impact of falls in government support and councils' responses as they prepared their plans for 2011/12.

The report looks at the impact on councils of:

- a real terms reduction of £3.5 billion in government funding; and
- a £1.2 billion fall in local income from council tax and fees and charges.

The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

A copy of the Audit Commission's 'Tough Times' report can be found at http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes.aspx

Further communication with audited bodies on the procurement of audit services (10 November 2011)

The Audit Commission wrote to all audited bodies on 3 August 2011 and 21 September 2011 on the procurement of audit services. On 10 November 2011, the Audit Commission wrote to audited bodies with a further update on the progress of the procurement and next steps. A copy of the letter is set out below.

10 November 2011

Dear Colleague

Update on the procurement of audit services

On 21 September, I wrote to update you on the progress of the current procurement exercise to outsource the work of the Commission's in-house audit practice and to provide further details of the timetable.

We have now reached another significant milestone in the process, having issued Invitations to Tender (ITT) for the principal bodies' procurement to 13 potential providers.

We have published a copy of the ITT on our website. The bidders invited to submit tenders are:

- BDO LLP
- DA Partnership Ltd
- Deloitte LLP
- Ernst & Young LLP
- Grant Thornton (UK) LLP
- consortium led by Haines Watts
- KPMG LLP
- Menzies LLP
- consortium led by MHA Audit LLP
- consortium led by Moore Stephens LLP

- PKF (UK) LLP
- pwc LLP
- RSM Tenon Audit Ltd.

In accordance with the published timetable, potential suppliers have until 16 December to submit tenders.

The process has three key stages:

- making decisions about the award of contracts;
- determining the length of contracts; and
- appointing auditors to individual bodies.

The arrangements for each stage are set out below.

Award of contracts

The Audit Commission is running the procurement process, and all key decisions relating to it are being taken by the Commission Board. The Board has appointed a Procurement Panel, a sub-committee of the Board, comprising Board members with a range of skills and experience of the different sectors, to oversee the procurement in more detail, and to make recommendations to the Board as to the award of contracts following the evaluation. This Procurement Panel includes an independent member, Mike More, the Chief Executive of Westminster City Council.

The outsourcing strategy is based on 10 contract lots covering local government, NHS, police and other local public bodies – over 650 in total – in different parts of the country. The bids for each lot will be assessed on the qualitative and financial criteria set out in the ITT. Those are the only factors that will determine a contract award.

As the Commission has determined that TUPE applies to the outsourcing process, the majority of the Commission's Audit Practice staff will transfer to the successful bidders in each area at the end of October 2012.

Contract length

The decision whether to award contracts for three or five years is about value for money, but is also linked to the government's timetable for the introduction of, and transition to, new local public audit arrangements, and for the disbandment of the Commission. The government has indicated that it wants to talk to the different sectors about the trade-off between the value for money of awarding three or five year contracts and the benefits of the proposed new public audit arrangements, once we have a better sense of the difference that the outcome of the procurement makes to audit fees from 2012/13.

Auditor appointment

The Commission has a statutory duty to consult local government audited bodies on the appointment of the auditor. We will also consult NHS bodies. Consultation with all audited bodies on appointments from 2012/13 onwards will take place after the contracts have been awarded. We have allocated sufficient time within the process to allow for meaningful consultation.

Where a body is currently audited by the Commission's Audit Practice, we will propose the winning firm in each contract area as the appointed auditor, unless there are good reasons that prevent this. Our contract strategy ensures the Commission will have the option of appointing a different firm to an audited body should this be necessary.

Where a body is currently audited by a firm, we do not expect to have to change the appointment from 2012/13. However, we must wait until the procurement is completed before we can confirm the national picture on auditor appointments.

We plan to set out early in the new year how we will go about the consultation process and specify the grounds on which we will consider representations from audited bodies about proposed auditor appointments,. The new auditor appointments for 2012/13 will take effect from 1 September 2012. We are putting in arrangements to ensure a smooth handover to the incoming auditor.

Next Steps

We will keep you updated on the progress of the procurement and the associated developments. I will write to you again early in the new year, setting out the process we propose to follow in consulting on 2012/13 auditor appointments. If you wish to clarify any of the points in this letter or ask other questions about the content, please email: audit-appointments@audit-commission.gov.uk or contact Marcine Waterman or Andrew Davies on 0844 798 2447.

Yours sincerely

Eugene Sullivan
Chief Executive

Protecting the public purse - fighting fraud against local government (10 November 2011)

The Audit Commission's report 'Protecting the Public Purse 2011: Fighting Fraud Against Local Government', describes what has happened since 2010 and sets out the findings from the Commission's recent fraud survey. England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers. Also, councils recovered nearly 1,800 homes from tenancy fraudsters. To build those homes from new would have cost the public purse over £265 million.

The Commission identifies emerging risks such as fraudulent student council tax discount claims and fraud against social care payments to the elderly and vulnerable. The Commission urges local councils and related bodies to focus on and tackle them, and improve their counter-fraud defences. An updated checklist is available that gives organisations another opportunity to consider how effective they are at responding to the risk of fraud. A copy of the checklist is attached below on page 11.

Also available is a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.

A copy of the Audit Commission's 'Protecting the Public Purse' report 2011 can be found at http://www.audit-commission.gov.uk/localgov/nationalstudies/Pages/ppp2011_copy.aspx

Checklist

General	Yes	No
1 Do we have a zero-tolerance policy towards fraud?	○	○
Comments		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?	○	○
Comments		
3 Do we have dedicated counter-fraud staff?	○	○
Comments		
4 Do counter-fraud staff review all the work of our organisation?	○	○
Comments		
5 Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	○	○
Comments		

General	Yes	No
6 Have we assessed our management of counter-fraud work against good practice?	○	○
Comments		
7 Do we raise awareness of fraud risks?		
a. With new staff (including agency staff)?	○	○
b. With existing staff?	○	○
c. With elected members?	○	○
d. With our contractors?	○	○
Comments		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	○	○
Comments		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	○	○
Comments		

General	Yes	No
10 Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	○	○
Comments		
11 Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	○	○
Comments		
12 Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	○	○
Comments		
13 Do we have effective whistleblowing arrangements?	○	○
Comments		
14 Do we have effective fidelity insurance arrangements?	○	○
Comments		

Fighting fraud with reduced resources	Yes	No
15 Have we reassessed our fraud risks since the change in the financial climate?	○	○
Comments		
16 Have we amended our counter-fraud action plan as a result?	○	○
Comments		
17 Have we reallocated staff as a result?	○	○
Comments		

Current risks and issues	Yes	No
Housing tenancy		
18 Do we take proper action to ensure that we only allocate social housing to those who are eligible?	○	○
Comments		
19 Do we ensure that social housing is occupied by those to whom it is allocated?	○	○
Comments		

Current risks and Issues	Yes	No
Procurement		
20 Are we satisfied our procurement controls are working as intended?	○	○
Comments		
21 Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	○	○
Comments		
Recruitment		
22 Are we satisfied our recruitment procedures achieve the following?		
a. Do they prevent us employing people working under false identities?	○	○
b. Do they confirm employment references effectively?	○	○
c. Do they ensure applicants are eligible to work in the UK?	○	○
d. Do they require agencies supplying us with staff to undertake the checks that we require?	○	○
Comments		

Current risks and issues	Yes	No
Personal budgets		
23 Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	○	○
Comments		
24 Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	○	○
Comments		
Council tax		
25 Are we effectively controlling the discounts and allowances we give to council taxpayers?	○	○
Comments		

Current risks and issues	Yes	No
Housing and council tax benefits		
26 When we tackle housing and council tax benefit fraud do we make full use of the following?		
a. National Fraud Initiative?	○	○
b. Department for Work and Pensions Housing Benefit matching service?	○	○
c. Internal data matching?	○	○
d. Private sector data matching?	○	○
Comments		

Appendix 3 Forward plan for Audit Committee meetings

Table 2: **Audit Committee forward plan**

Committee date	Audit Commission	Audit Committee
December 2011	Progress report Revised Annual Governance Reports Annual Audit Letter	Progress/response to recommendations
February 2012	Progress report Grants certification report Opinion audit plan for 2011/12 ISA compliance letter	Progress/response to recommendations
June 2012	Progress report, including report on the 2011/12 interim audit	Progress/response to recommendations Response to fraud and legality arrangements letters
September 2012	Progress report Annual Governance Report	Response to letter of representation

Audit Committee
15 December 2011

Report from the Director of Finance and Corporate Services

For Action

Wards Affected: ALL

Report Title: Treasury 2011/12 Mid – Year Report

1. SUMMARY

1.1 This report updates members on recent treasury activity.

2. RECOMMENDATIONS

2.1 The Sub Committee is asked to comment on and to note the report, which is also being sent to the Executive.

3 DETAIL

3.1 The CIPFA Code of Practice on Treasury Management (2009) requires that treasury activities should be reported to Full Council at mid-year, as well as at year-end. Activities are also reported to the Audit Committee on a quarterly basis. CIPFA has very recently issued a revised Code of Practice that reflects additional flexibility in the treasury management area given to local authorities – the implications of this will be reported with the Treasury Strategy for 2012/13.

3.2 Financial markets have been turbulent during the period June – November, with stock markets falling sharply. Concerns about the euro area, a potential Greek debt default, worries about the USA debt ceiling, and slowing growth in the developed markets have all undermined confidence. Investors have sought safe financial havens, so that medium and longer term interest rates have fallen in the favoured markets – USA, Germany, Switzerland and UK being among the beneficiaries. More sinister has been the tightening in credit markets as USA banks avoid lending to European banks perceived to be vulnerable to Greek and other weaker European country debt. Increasingly, both European and USA institutions have deposited money with their central banks rather than lend it on the market (the 'wholesale' market), leading to rising interest rates, some shortages and bank reliance on their central banks. Although the situation is not yet as severe, there are worrying similarities to the 2008 credit crunch, with Dexia bank requiring support from the French, Dutch and Belgian authorities. Central banks have taken action to ease the flow of credit to banks, but confidence remains fragile.

3.3 In October, the credit rating agencies reduced the long term ratings below acceptable values for a number of UK banks – Royal Bank of Scotland, National Westminster, Lloyds, and Bank of Scotland – which led to these banks being suspended from the List. This leaves only three banks on the Brent Treasury Lending List – Barclays, HSBC and Santander UK.

Lending

3.4 In these circumstances, there have been no attempts to widen the existing Brent Treasury Lending List. At present, only UK banks are included (as well as government institutions, other local authorities and AAA rated money market funds). When making deposits, maturity dates are kept short (one month, though the one year option remains open), and available balances are held in money market funds or, increasingly, the Debt Management Office.

3.5 As the Lending List is so constrained, consideration is being given to the use of overseas banks (non-European) of suitable quality, provided that the sovereign ratings are sufficient – the markets proposed are Australia, Canada and USA. There would be a limit of 20% for each overseas market, to ensure proper diversification. The number of money market funds in use, and the amount to be deposited in each money market fund is also currently under review, with a view to ensuring proper diversification.

3.5 Members will be aware that the contract for Aberdeen Asset Management to manage an external treasury fund of £23m, mainly invested in certificates of deposit (CDs, which usually have about one year duration), was terminated in July 2011. An era of very low interest rates meant that there were limited opportunities for the house to add much value. Further, the market turmoil led to concerns that banks may find themselves in difficulty. Finally, the capital programme involves major expenditure on such items as the Civic Centre and Brent Housing Partnership – it is much cheaper at present to fund such items from balances where possible rather than borrow at rates that are 4% above short term rates.

3.6 The council made two deposits with Icelandic banks in 2008 – Heritable Bank (£10m) and Glitnir Bank (£5m). Heritable Bank was placed in administration, with Ernst & Young acting as administrator. To date, the council has received £6.5m, with £1.5m paid in 2011/12. Ernst & Young anticipate as their main case that creditors will receive 86% - 90% of their deposit – this has risen since 2009.

3.7 The local authority case that they be treated as preferred creditors for their deposits with Glitnir Bank was successful at the District Court level in Iceland. The Icelandic Supreme court has recently confirmed this view, so that it is likely that the deposit will be repaid early in 2012. The council has worked with the Local Government Association and other local authorities to fund action in the Icelandic courts.

3.8 The list of current deposits as at 30th November is attached as Appendix 1. Note that increasing use is being made of the government's Debt Management Office.

Borrowing

3.9 The 2011/12 treasury management budget assumed that the council would borrow long term around October 2011 to fund the capital programme. Although it has become apparent that the capital programme has not progressed as quickly as anticipated, the council borrowed £20m from the Public Works Loans Board in September. The loan was at 2.34% for ten years, with £2m to be repaid in equal instalments each year. It was felt that rates were very low following the flight to safety to UK markets outlined above, and that the loan would protect the council should the wholesale market (lending between banks and financial institutions) become more difficult.

3.10 It is anticipated that the council will require additional long term loans (around £30m) later in the financial year, depending on the progress of the capital programme.

Changes to the Housing Revenue Account (HRA)

3.11 The Department for Communities and Local Government (DCLG) has announced changes to the Housing Revenue Account to allow councils more freedom in the management of their housing stock. From a treasury management viewpoint, the changes have a number of aspects:-

a) The DCLG will repay around £200m of the council's PWLB debt (currently £509m in total), to reduce the HRA share of debt to the level calculated by the DCLG self-financing model.
b) The overall impact of the changes is intended to be neutral for the general fund.
c) In future, HRA debt will be accounted for separately from general fund debt, leading to amended accounting arrangements.
d) The views of those managing the HRA will need to be taken into consideration in future debt repayment / restructuring activity, as the HRA Business Plan will include debt considerations.

Prudential Indicators

3.12 The Council has complied with its various Prudential Indicators, such as interest rate exposure, maturity structure for fixed rate borrowing, and authorised limit and operational boundary for external debt.

Budget implications

3.13 The treasury budget is likely to be underspent in 2011/12 as a result of lower interest rates and borrowing later than planned.

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 2011.

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 30th November 2011** are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	7.5	Var.	Call	
Morgan Stanley cash reserve	1.3	Var.	Call	
Heritable bank	3.5	0.0	15.08.08	14/11/08
Glitnir	5.0	0.0	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Thameside Borough	4.4	0.5	25.11.11	19.12.11
Santander UK	2.9	0.28	25.11.11	19.12.11
Santander UK	5.5	0.27	30.11.11	02.12.11
Total	**30.2**			

Audit Committee
15 December 2011

Report from the Director of Finance and Corporate Services

For Information

Wards Affected:
ALL

Internal Audit Plan for Brent Housing Partnership for 2011/12

1. Summary

1.1. The purpose of this report is to advise the Audit Committee of the final Internal Audit Plan for the Brent Housing Partnership (BHP) for 2011/12. The plan was presented to the BHP Audit & Finance Sub-Committee in July 2011. The Brent Housing Partnership is an Arms Length Management Organisation which is limited by guarantee and wholly owned by the Council. Brent Housing Partnership (BHP) is responsible for managing Council's housing stock. All housing management functions having been delegated to it.

2. Recommendations

2.1. That the Audit Committee note the detail and content of the report in its role as defined in the constitution: To consider the strategic and annual audit plans, and consider the level of assurance these can give to the Council's corporate governance and risk management arrangements.

3. Detail

3.1. The Internal Audit Plan for BHP for 2011/12 comprises 152 days, of which 97days are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 55 days to the in-house team.

3.2. The report sets out the following:

- How the total number of plans days has been determined;
- How the plan has been formulated.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. 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

2011/12 Internal Audit Plan

Brent Housing Partnership (BHP)

November 2011

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Executive Summary

Introduction	This report sets out the Internal Audit Plan for the 2011/12 financial year. As per the previous four financial years, the Plan will continue to be delivered through a partnership of the Council's in-house team and Deloitte & Touche Public Sector Internal Audit Ltd. Within the report we cover the following: • How the detailed Plan has been formulated; and • How the Plan will be monitored for ongoing relevance during the course of the year. The detailed Plan itself is set out at Appendix A. Within this we have provided an indication as to the proposed coverage for each individual audit, although the Committee should note that these are summary level scopes only, and will be discussed in greater detail with relevant officers prior to the commencement of any work. The Plan itself will be subject to change during the course of the year, so as to ensure its ongoing relevance in light of any new or emerging risk areas, and any new developments / projects which may be initiated. Any significant revisions will be reported on at scheduled Committee meetings.

Total Plan Days	The Plan is based on a total of 152 days.

Formulating the Plan	A number of factors have been taken into account in formulating the Plan. These include the following: • Inclusion of any key systems judged to require completion on an annual basis in order to inform the work of both BHP's external auditors and the Council's external auditors; • Consideration of key risk areas across BHP, as determined through Internal Audit's own assessment of risk, as well as liaison with the Director of Finance, the Financial Controller and the Financial Operations Manager; • Consideration of key projects and developments taking place across BHP and the Council to the extent that it impacts on BHP; and • Consideration of areas of known weakness, as determined through previous internal audit work. Internal Audit met with BHP's Finance Controller, the Finance Operations Manager to discuss some of the specific projects within the plan.

Types of Work	Internal Audit comprises a range of specialist skills, the three key areas of coverage being the following: • General risk based systems audit / compliance based audit; • IT audit; and • Contract audit. A significant proportion of the Plan is allocated to risk based systems audits. However, some audit days are allocated to IT audits and contract related audits. IT audit work can take a variety of forms, although the main focus within the 201/12 Plan is on audits of specific IT applications. It is important to note that, with the exception of a small number of applications, BHP is linked into the Council's IT infrastructure. Separate IT audit coverage is therefore not needed for BHP in a number of areas since this is addressed through the IT Audit Plan in place for the Council as a whole. Application audits were undertaken on the Accuserve and Dom Doc systems as part of BHP's 2009/10 Internal Audit Plan. No IT audits were undertaken on any other BHP specific applications in 2010/11. The intention is for the Accuserve Stock Module to be reviewed in 2011/12. Contract audit work also varies in form, although generally focuses either on the controls in place around the management and administration of a construction based project; the tendering of projects / contracts; or on the controls in place around the management of a contractual relationship. Additional contract audit work was undertaken in 2009/10 and in 2010/11 on contract final accounts, as agreed by the Committee. The intention is to undertake work in this area in 2011/12 as directed BHP. One key point to note is that the work of Internal Audit is not limited only to systems of control that are already in place and embedded. There is also a key role to play in assisting management to assess the risks involved in new developments / new projects / new ways of working, helping them to determine an adequate system of controls at the design and implementation stage, as opposed to highlighting deficiencies at a later stage when it may be more difficult / costly to address weaknesses. We will continue to liaise with officers throughout the year to identify any instances whereby it is appropriate for Internal Audit to provide this type of assistance in 2011/12.

Ensuring the ongoing relevance of the Plan	It is crucial that the Plan is reviewed on a regular basis during the course of the year so as to ensure that it remains relevant in terms of the key risk areas and any new developments that take place across BHP. We will continue to liaise with the relevant officers during the course of the year so as to determine whether any amendments are required, and will provide an update at scheduled Committee meetings where any significant revisions occur.

Appendix A – Detailed Plan

The Internal Audit Plan for 2011/12 is set out below. Where possible, we have included the proposed number of days against each audit, together with a high level indication of the proposed coverage, the key contact For each audit we have included the proposed number of days, a high level indication of the proposed coverage, the key contact, and an indication of the proposed timing where this is known at this stage.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT
Housing Repairs & Maintenance	12	Annual systems audit focussing on key controls and any systems changes. Inclusion on an annual basis is required in order to inform the work of the Council's external auditors.	Gerry Doherty – Chief Executive
Housing Rents	8	Annual systems audit focussing on key controls and any systems changes. Inclusion on an annual basis is required in order to inform the work of the Council's external auditors.	David Bishopp – Rent Accounting & Performance Manager
Contract Audit	11	To focus on the controls in place around the management of properties purchased under the Settled Homes Initiative (SHI) Scheme). Specific areas of focus are likely to include financial control; selection of contractors and letting of the contract; appointment of consultants; tender receipt and evaluation; bonds/insurance; contract variations and provisional sums; valuations and estimations of final cost; liquidated damages; defect liability period; contractual claims; CDM regulations; and progress monitoring.	Gerry Doherty – Chief Executive
Gas Servicing	12	To focus on controls around the	Gerry Doherty – Chief Executive

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT
		identification of properties to be visited; monitoring of completion of visits; follow-up of properties where entry was denied; variations to works and the monitoring of completion of variations; valuation and payments; monitoring of contractor performance & performance monitoring and reporting.	
Leasehold Management & Service Charges	12	To focus on controls around the management of leasehold properties and service charges. Specifically the calculation of annual service charges & major works; consultation process for major works; management fees; timeliness of billing of leaseholders; payment options; receipts from leaseholders; income collection and debt recovery; complaints & arbitration; performance management.	Dawn Martin – Leasehold Services & Income Manager
Treasury Management & Investments	8	To focus on controls in place with regards to the treasury management and investments functions.	Ian Warner – Interim Director of Finance
IT AccuServe (Stock Module)	8	IT Application Audit on the new stock module on Accuserve.	Rick Pinnock – Repairs & Voids Manager
Governance & Risk Management	10	To focus on controls in place around governance and risk management arrangements at BHP.	Linda Footer – Head of Governance & Communication -
Conflicts of Interests & Gifts and Hospitality (Members & Officers)	12	To focus on controls in place for ensuring that Board members avoid conflicts of	Linda Footer – Head of Governance & Communication/ Sejal Karia – HR

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT
		interests in their roles and responsibilities. Also to review of implications of the Bribery Act on the organisation.	Manager
Internal Financial Controls	10	Annual audit focussing on key financial controls operating within BHP.	Ian Warner – Interim Director of Finance
Settled Homes Initiative	17	To focus on controls in respect of administering Settled Homes Initiatives (SHI) and also to follow up the extent to which the recommendations arising from the Council's review have since been implemented. It should be noted that this work will focus on the process up to hand over to the New Homes team and will not include the process operated by the New Homes team for letting the properties. This work has been added to the plan as requested by the Council following the issue identified in respect of out of borough properties acquired under SHI.	Andros Loizou – Senior Project Manager
Repairs & Voids	10	Systems Audit focussing on the requisition of materials; receipting of orders; stock store; dispensing of materials; accounting for usage; stock checks; and Stock Valuations.	Gerry Doherty – Chief Executive
Consultation, Communication, Reporting and Follow-Up	20	To cover attendance by Internal Audit management at Audit & Finance Sub-Committee meetings and the production of progress reports for these. In addition, to cover managements' non-audit specific liaison and communication with officers during the course of the year, for example ongoing liaison regarding any	N/A

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT
		necessary revisions to the Plan and communication of key issues arising from completed internal audit work. In addition, completion of follow-up work on all recommendations raised and agreed as part of the 2008/09 BHP Internal Audit Plan, where the same audits are not being undertaken again as part of the 2009/10 Plan. Also, to follow-up on any further actions raised as part of the 2008/09 follow-up work as being necessary to fully implement recommendations from 2007/08 internal audits.	
TOTAL	**152**		

Appendix B – Audit Team and Contact Details

London Borough of Brent			Contact Details
Simon Lane	–	Head of Audit & Investigations	simon.lane@brent.gov.uk 020 8937 1260
Aina Uduehi	–	Audit Manager	aina.uduehi@brent.gov.uk 020 8937 1495

Deloitte & Touche Public Sector Internal Audit Limited			Contact Details
Mark Towler	–	General Manager	phil.lawson@brent.gov.uk 020 8937 1493
Phil Lawson	–	Senior Audit Manager	
Shahab Hussein	–	Senior Computer Audit Manager	

Audit Committee
15 December 2011

Report from the Director of Finance and Corporate Services

For Information

Wards Affected: ALL

2nd Internal Audit Progress Report 2011/12

1. Summary

1.1. This report sets out a summary of the work of Internal Audit for the period from 1st April 2011 to 30th November 2011. The attached report provides further details of this together with the assurance ratings and priority 1 recommendations for limited and nil assurance reports together with management responses for those audits for which final reports have been issued since August 2011.

2. Recommendations

2.1. That the Audit Committee notes the progress made in achieving the 2011/12 Internal Audit Plan.

3. Detail

3.1. The Internal Audit Plan for 2011/12 comprises 1,200 days, of which 905 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 295 to the in-house team.

3.2. At the end of November 2011, a total of 615 days had been delivered against the overall Plan, made up of 470 Deloitte PSIA days and 145 in-house days. This represents 51% of the Plan and is a slight improvement on the previous year when 47% of the plan had been achieved at the same stage in 2010..

3.3. In terms of the profile for 2011/12 for specific audits, the majority have been progressed as planned. As explained in previous years, the days are not planned to be delivered in an even twelve month split. One reason is that there is a requirement for financial systems to be audited towards the end of the year, in order that sample testing covers a significant proportion of the accounting period. In addition, given that the Plan has been aligned to many of the developments taking place as part of the One Council programme, a further key factor in the

timing of work is the status of implementation of each of these developments.

3.4. The plan is kept under continuous review in order to determine whether changes are required in certain areas. If audit requirements change, alternative projects are identified. A number of planned audits have had to be taken off the plan due to delays in the implementation of the projects to which they relate. Examples include the planned review of libraries which is now unlikely to take place due to delays in the closure of some libraries. Other audits deferred to 2012/13 include: Transformation of Support Functions in Environment & Neighbourhoods; Partnership Working with external housing bodies; and Partnership Working with the NHS. Some alternative projects have been identified to replace these audits and some days are being used to support unplanned work within BHP linked to the Settled Homes Initiative issues identified as part of the Annual Governance Statement.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. Background Papers

1. REPORT FROM THE DIRECTOR OF FINANCE – INTERNAL AUDIT PLAN FOR 2011/12, *Audit Committee 25th June 2011.*

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

Appendix 1

Internal Audit
Progress Report 2011/12
London Borough of Brent
December 2011

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Executive Summary

Introduction	This report sets out a summary of the work completed against the 2011/12 Internal Audit Plan for the financial year to date. The report provides 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. The report also indicates audits at draft report and fieldwork stage.

Summary of progress against the Plan	The overall Internal Audit Plan for 2011/12 comprises 1,200 days, of which 905 were allocated to Deloitte & Touche Public Sector Internal Audit Limited (Deloitte PSIA), and 295 to the in-house team. As at the end of November, a total of 615 days have been delivered against the overall Plan, made up of 470 Deloitte PSIA days and 145 in-house days. This represents 51% of the Plan and is an improvement on the previous year when 47% of the plan had been achieved at the same stage in 2010. Where it was possible to profile a commencement date for audit work in the first part of the year, the majority of these have progressed as planned. As explained in previous years, the days are not planned to be delivered in an even twelve month split. One reason is that there is a requirement for financial systems to be audited towards the end of the year, in order for sample testing to cover a significant proportion of the accounting period and hence to satisfy the Audit Commission's assurance needs. In addition, given that the Plan has been aligned to many of the developments taking place as part of the One Council programme, a further key factor in the timing of work is the status of implementation of each of these developments. The plan is kept under continuous review in order to determine whether changes will be required in certain areas, on the basis that internal audit work will not be considered relevant in respect of certain projects due to the implementation status. Where this is the case, alternative areas are identified in which to undertake work, so as to ensure that the total planned days are delivered by year-end. A number of planned audits have had to be taken off the plan due to delays in the implementation of the projects to which they relate. Examples of these include the planned review of libraries which is now unlikely to take place due to delays in the planned closure of some libraries. Another audit which has had to be taken off the plan is of the Transformation of support functions for Environment and Neighbourhood as the Service. This was due to the restructure in the summer 2011 and re-design of the support function. In addition, two other planned audits relating to partnership working with external housing bodies and partnership working with NHS will be deferred into 2012/13 plan. Some other potential projects have been identified to replace these audits and others are in the process of being

	identified. There has also been an increase in the number of days allocated to work to be carried out at BHP in relation to the Settled Homes Initiative, following governance concerns highlighted in the Annual Governance Statement.

Summary of Work Undertaken	A number of systems audits have been completed and are in progress across the Council. In addition, work has been undertaken in relation to the new Project Management Framework being developed and implemented by Regeneration and Major Projects. The work involved an initial assessment of the adequacy of the controls making up the new Framework, and was completed by one of Deloitte's specialist contract auditors, taking account of their construction industry knowledge and experience of good practice across the public sector. Computer audit work is also progressing, and since the last committee a number of audits have been undertaken including Bankline Application, IDEAR Pupil Management, and IT Governance. The final key area of work is in relation to schools, which forms a significant part of the annual coverage. 22 primary schools were included in the 2011/12 plan. The majority of these have been visited by the end of November 2011 and whilst some of these have now been finalised, the rest are either in draft stage or waiting for additional information from the Schools. As was the case in 2010/11 and also reported previously in the last meeting, there are common areas of weakness identified across several of the schools. Primarily these relate to compliance with the Financial Regulations for Schools around high value procurement and leasing arrangements and compliance with the national School Teachers Pay and Conditions Document 2010 (STPCD). The Head of Audit & Investigations requested that the Human Resources Team within Children and Families provide detailed guidance to schools on this and this has now occurred. Internal Audit will continue to assess this area as part of the Internal Audit programme. As previously reported, the Secretary of State withdrew the Financial Management Standard in Schools (FMSiS) in November 2010. The Schools Financial Value Standard (SFVS) has now been published by the Department for Education and it is now available to schools to operate from the Autumn term 2011. Maintained schools will be required to conduct a self assessment against SFVS and submit the return to the Council once a year. Whilst SFVS does not require external validation, as was the case for FMSiS, the Internal Audit programme has been revised to include the key elements of SFVS and this will be covered when the School is visited as part of cyclical Internal Audit programme (every 3 years for primary schools and 2 years for secondary schools).

	An audit has also been completed in relation to Project Governance and Contract Variations for Curzon Crescent Children's Centre's refurbishment works. A number of weaknesses were identified as a result of this work and, in addition to issuing a lessons learnt report for this specific project, a briefing paper was issued to the Director of Children and Families so that the lessons can be shared across the other children's centres and schools within Brent.

Summary of Assurance Opinions and Direction of Travel

Assurance Opinions

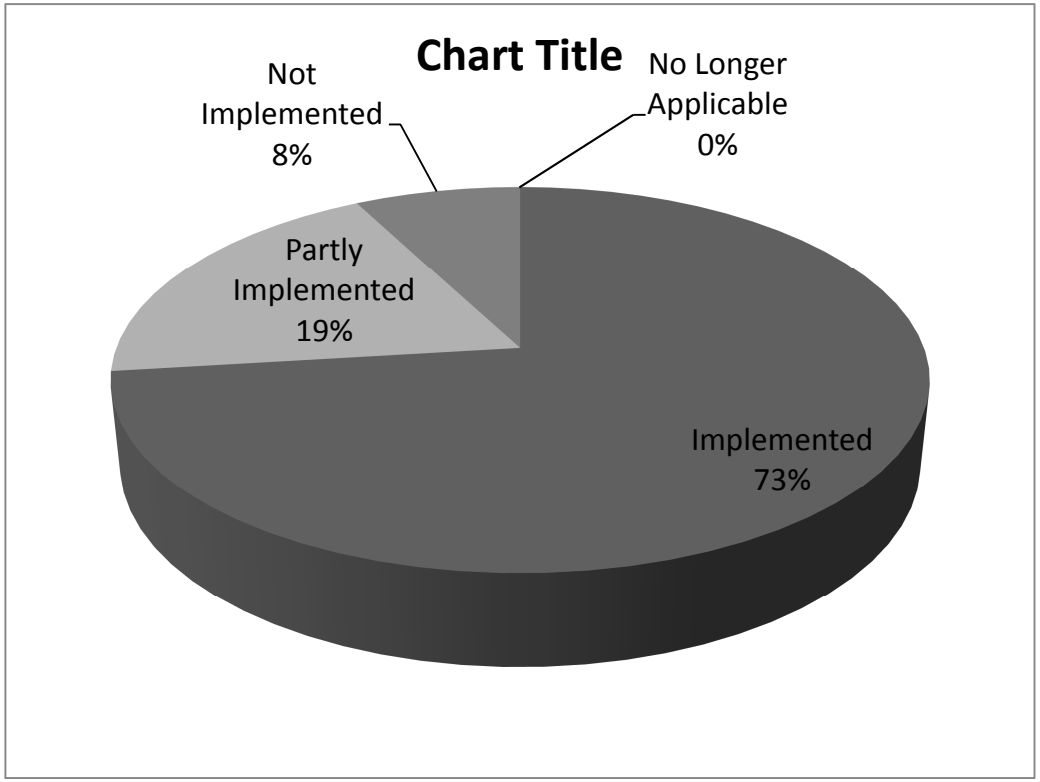
	Full	Substantial	Limited	None
2008/09	-	78% (21)	22% (6)	-
2009/10	-	61% (25)	39% (16)	-
2010/11	-	67% (37)	31% (17)	2%(1)
2011/12	-	67% (10)	27%(4)	6% (1)

Direction of Travel

	Improved	Unchanged	Deteriorated
2008/09	8	1	-
2009/10	6	9	-
2010/11	5	5	-
2011/12	1	1	-

Overall, for the work finalised for 2011/12 to date, the spread of assurance opinions is similar to the last year. However, the spread is likely to change when further reports are finalised.

It should be noted that the above figures do not include Brent Housing Partnership (BHP) reports, which are reported on separately to the BHP Audit & Finance Sub-Committee.

Follow-Up of Previously Raised Recommendations	As part of our rolling programme, all recommendations are being followed-up with management, as and when the deadlines for implementation pass. This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any priority 1 recommendations.  With regards to the followed-up recommendations reported on since the last meeting of the Committee, the chart above illustrates the status of implementation. The detail behind this is presented on page 26. In total, 92% of the recommendations were found to have either been implemented or partly implemented, with 8% having not been progressed, i.e. no actions had yet been taken to implement the previously agreed recommendations. Of the priority 1 recommendations, 86% had either been implemented or partly implemented, with no actions taken for the remaining 14%. As such, this represents an improvement in comparison to previous periods.

	Internal Audit are now monitoring the extent to which management informs that recommendations haven't yet been implemented due to issues with resource levels. It is recognised that this may be a limiting factor in certain areas. However, it is important that both management and the Committee have an awareness of any such recommendations, and, specifically, the risks surrounding the weaknesses to which they relate. In certain instances, if the risk exposure is high, a decision may need to be made as to how this can be addressed given the resources available. Since the last committee there have been no such recommendations to report. In all cases, if recommendations are found to have not been implemented, internal audit will raise further actions as being necessary and management are required to assign a new deadline and responsible officer to each of these.

Customer Satisfaction

Satisfaction Ratings 1=Poor, 5= Excellent

Year	Average Overall Rating
2008/09	4.4
2009/10	4.1
2010/11	4.7
2011/12	4.4

Four completed satisfaction questionnaire have been received so far during the year. This, together with the in-house monitoring of progress and the review of work completed, is a key way in which the performance of Deloitte PSIA is monitored.

Detailed summary of work undertaken

This section sets out the summary of internal audits completed during the 2011/12 financial year to date.

Assurance Opinions

There are four assurance levels as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	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.
	Limited	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.
	None	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 recommendations are categorised according to their level of priority as follows:

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

SUBSTANTIAL / FULL ASSURANCE REPORTS

Only the assurance opinion and direction of travel is being reported on for those audits for which Substantial or Full Assurance was given. The Committee's focus is directed to those audits which received a Limited Assurance opinion.

2011/12 Audits

Audit	Status as at 30 November 2011	Assurance Opinion and Direction of Travel
Ward Working Grant	Final Report	S
Software Licensing	Final Report	S
Exchange and E-mail Archiving	Final Report	S
Bankline Application	Final Report	S ⇔
Member's Allowances and Expenses	Final Report	S ⇨
Conflicts of Interest & Gifts & Hospitality (Members)	Final Report	S

Audit	Status as at 30 November 2011	Assurance Opinion and Direction of Travel
SCHOOLS		
Lyon Park	Final Report	S
The Kilburn Park	Final Report	S
Uxendon Manor	Final Report	S
St Mary's RC	Final Report	S
BHP		
Gas Servicing and Fire Equipment	Final Report	

LIMITED/NIL ASSURANCE REPORTS – General Audits including Computer Audits

For all Limited/Nil Assurance reports, a brief rationale is included together with details of any priority 1 recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective. The only exception is for any BHP reports, for which the details have been reported separately to the BHP Audit & Finance Sub-Committee.

2011/12 Audits (finalised since the September 2011 meeting)

Frameworki Finance Module (2011/12)	The key weaknesses related to Suspension Cases and Segregation of duties within the Frameworki system. The absence of an arrow indicates that although the post implementation review was undertaken in 2009/10, no comparisons were made as the focus of the post implementation work was different from this work.	

Priority 1 Recommendations	Management Response / Responsibility/ Deadline for Implementation
The suspension of payments calculation in Frameworki should be changed to meet user requirements and prevent overpayments to Service Users when a suspension is lifted.	ITU were not made aware of the above issue with regards to payment suspensions. Ken Wilson Team Manager – Client Finances, issued the following: "As far as I am aware suspensions are now working correctly and do not repay the period suspended when suspension ends. If care managers end suspensions they may sometimes need guidance on entering relevant end dates. For example we have a case where a care manager suspended rather than ended a case as DP may or may not restart several months later. In such a case it is crucial the end date is entered as soon as the suspension is lifted to prevent an overpayment." **Adult Social Care - Central Finance Team** **Immediate**

Priority 1 Recommendations	Management Response / Responsibility/ Deadline for Implementation
The ability to act for others should be restricted and only applied when it is required to cover a role for a short period of time. Users should not be allowed to approve their own work. Furthermore, a regular review of user access restrictions should be made to identify exceptions.	Management respond seriously to the concerns of this report and will review the process. **Director of Adult Social Services** **5th December 2011**

Project and Programme Management (2011/12)	Overall, a number of weaknesses were identified in respect of the compliance with IT project management methodology, project and programme monitoring, and post implementation review. The absence of an arrow indicates that there was no recent or previous internal audit undertaken in this area to provide a comparison.	

Priority 1 Recommendations	Management Response / Deadline for Implementation
Procedures and processes should be developed to ensure that good project management methodology and practice is followed. For example: • Approval of the Objectives and Critical Success Factors is performed by the Corporate Programme Board (One Council Programme Board) or an equivalent of a steering group; • Regular formal Project and Programme Board meetings are held and details from the meetings formerly recorded; • Project Plans are adequately completed that provides details and breakdown of the various tasks, timelines, review stages, begin and end of project timeline with regular review, monitoring and update of the plan and the plan version controlled; • The Programme Plan is regularly updated and monitored by the Corporate Programme Board or an equivalent of a steering group; • Project stage sign offs are obtained; • Formal approval of the budget is obtained with regular monitoring and	ITU Project Managers are expected to comply with Prince 2 standards, processes and procedures. The ITU Programme Manager will monitor and review that these standards are maintained through the 1-2-1 process. **ICT Programme Manager** **Immediate and ongoing**

Priority 1 Recommendations	Management Response / Deadline for Implementation
update of the budget performed and reported to the Project Board; • Regular (RAG) status update reports are produced and distributed to the Project Board, senior management, key stakeholders and steering groups; • Client satisfaction surveys are carried out; • A lessons learnt exercise is conducted and post project reviews are conducted with any good or bad practices noted for future projects; and • Project sign offs are obtained from the sponsor.	

LIMITED ASSURANCE REPORTS – School Audits

Given that a common set of key weaknesses have been identified across schools (as outlined in the Executive Summary), we have therefore not listed all agreed priority 1 recommendations in this section.

John Keble (2011/12)	Three priority 1, seven priority 2, and one priority 3 recommendations were raised as a result of this audit. All priority one recommendations were agreed by the School.	
Mitchell Brook (2011/12)	Sixteen priority 1 and 16 priority 2 recommendations were raised as a result of this audit. All of the recommendations were agreed for implementation by the School.	

NIL ASSURANCE REPORTS - Schools

Curzon Crescent Children's Centre (2011/12)	22 priority 1 and 16 priority 2 recommendations were raised as a result of this audit. All of the recommendations were accepted for implementation by management.	N

NON-ASSURANCE WORK

This section summarises other work undertaken during 2011/12 for which an assurance opinion was not applicable.

Lessons Learnt - Curzon Crescent Nursery and Children's Centre Project Governance and Contract Variations	**Purpose of audit work** - This work was added to the Plan on the basis of a request from the current Head of the Centre. It was undertaken as a fact finding exercise in relation to concerns raised by the Head of Centre around the final account values in respect of Phase 1 and Phase 2 of the project, as completed during 2010. The purpose being to seek to establish lessons to be learned for use during Phase 3. **Background** - The Specification for the *"Refurbishment Works to existing Nursery and Children's Centre"* project at Curzon Crescent, Willesden, London NW10 9SD, dated June 2010 noted that, *"The works comprise internal alterations and refurbishment of the existing space to provide revised reception and office facilities, revised classroom layout and new accessible toilet facilities. Works include demolition and alteration works, new partitions and doors, new finishes, new sanitary fittings, revisions to plumbing, mechanical and electrical installations, new joinery fittings and redecoration works".* It further noted that, *"Repairs to roof, windows and external elevations may be carried out by others under a separate contract concurrent with the internal works contract".* The original estimated total construction cost at feasibility stage was £203,000. The initial contract sum was for £219,795. The anticipated final account in respect of Phase 1 and 2 is £315,446, an over spend of £112,446, or 55% of the contract sum. **Key Findings** - A new Head has been appointed to the Centre and has noted the number and value of contract variations incurred on Phases 1 and 2. Phase 3 is due to start with an anticipated cost of £82,446. The key findings were: • Internal Audit were unable to fully undertake the work due to restricted access to records and information. In particular, the Centre was informed by the architect that, *"Your auditors appear to be requesting a lot of detailed information, particularly from Appleyards DWB. I trust that the short answers we have provided will be sufficient. You will appreciate that this is not part of our normal service. Whilst we have been happy to assist with this exercise to date, we propose a time charge fee for any additional work that we are requested to carry out in connection with their enquiries. For your information my time is currently charged out at £75 per hour plus VAT".* The cost consultant also stated, *"Further to the recent requests for information in respect of the audit that is being carried out on the Phase 1 contract, I confirm that we would be pleased to assist. As we have completed all the Quantity Surveying/ Cost Consultant services covered in our original appointment, I propose that the time we spend in responding to the Auditor's requests for information is re-*

	numerated on a time-charge basis. The responses are going to require both Chweechen Lim's and my input therefore the hourly would be £85.00 plus Value Added Tax. I trust that this proposal is acceptable to you, however, if you have any queries, please do not hesitate to contact me. I attach a copy of the email to Paul Church dated 12 May 2010 that defines the original scope of our appointment, for you information". • There is evidence within some of the Minutes to suggest that the Governing Body may have allowed its concerns about claw back of the Centre's budget to drive its decisions and bring a large scale scheme to site in what may have been too short a timescale. • There is no formal Capital Prioritisation plan, analysing proposed projects against the Centre's strategic priorities and ranking them. This may have allowed what is now considered by the present Head of Centre and some members of staff to be a project of lesser benefit to the Centre, to go ahead at the expense of greater priority ones. • There was no project management framework in place. Change control procedures were therefore lacking. • The project grew in complexity as it progressed to site and it is unclear as to what the Governing Body actually approved and envisaged that it was going to get. • The Governing Body have not been provided with all of the information it needed, and it failed to provide sufficiently robust scrutiny and challenge to the project despite two of its members being closely involved with it. • Different project options were not produced or considered, and no cost/benefit analysis of these therefore exists. • The growth in the project was not checked by any increasingly accurate cost/benefit analysis taken at appropriate gateway review points. Indeed, the project was already overspent by £30K against its budget allocation when areas 1 and 2 were committed to site. • A properly defined and constituted user group was not set-up. A working party was created and we believe a schematic diagram was made available to staff with a 'suggestions box'. As such, this ultimately led to contract variations even being instructed as late as, and as a result of, undertaking 'snagging' walk rounds. This led to further cost overruns and the undoing of a 'value engineering' exercise that in itself had failed to bring the project back within budget in the first place. • The tender exercise was not transparent and open advertisement was not used. This represents a breach of the Council's Standing Orders. • Audit were not provided with evidence of checking the technical and financial capabilities and capacities of those selected to tender. • The consultants were not appointed via competitive fee proposal or market testing. Again, this is in breach

	of the Council's Standing Orders. • The normal clauses inserted into contracts to allow Internal Audit access to those records and documents it needs to undertake its work were not inserted into the terms and conditions of the consultants' appointments. • Lowest priced tendering was selected as the procurement strategy as opposed to Most Economically Advantageous Tender (MEAT). This is contrary to general advice and guidance from Constructing Excellence[1]. • Domestic sub-contractors were not identified. • Contingency sums were held within the contract sum and not the project budget. • Contract variations were issued on a monthly basis, were not priced and did not state the effect on the contract sum. Subsequent verification of pricing is not possible as 'inclusive' prices were accepted in the tender submission priced activity schedules and breakdowns have not been available to us. There is no evidence of breakdowns having been requested by the cost consultant on the Centre's project file. • Accurate estimates of final cost could not be produced because the value of variations had not been established and agreed with the contractor. However, they indicated early enough in the process that this phase of the contract (Areas 1 and 2) was going to overspend. The estimates of final cost did not appear to engender action by the project team to curb the predicted overspending, and budgetary control failed to call a further halt to progressing with Phase 3. There appears to have been scant regard to project cost control and budgetary control. Indeed, in the knowledge (or what should have been knowledge) that Areas 1 and 2 were already overspending the project budget allocation, it raises a question as to whether it was fully justified for any contract variations other than those of a health and safety or structural nature to be instructed at all. • It is unclear whether the budget effect of going ahead with Phase 3 is fully understood yet. • The employer may not have been fully protected from any delay caused by the contractor due to certificates of non-completion not being issued in accordance with the contract conditions. • Internal Audit are unable to say, with certainty, at this point that the Centre has received its Contractor's Design Portion (as built drawings – these are the drawings of what has actually been built as opposed to the architects initial tender drawings); its general as built drawings in respect of the architect designed works; its M&E as built drawings; all of its test and commission certificates in respect of the testing and commissioning of the mechanical and electrical installed items; operating and maintenance instructions in respect of the

[1] http://www.constructingexcellence.org.uk/aboutus/

	installed mechanical and electrical items; and warranties and guaranties in respect of all installed architectural, mechanical and electrical items.

Project Management Framework	The Project Management Initiative is a silver project within the One Council Improvement and Efficiency Action Plan 2010-14. This new approach to delivering major projects is expected to create significant benefits and efficiencies in the way the Council delivers local services, and works with its partners. These include the ability to deliver Major Projects on time and to budget with openness and transparency, through the implementation of sound project and programme management standards. It will also lead to more informed decision making with staff empowered to make decisions at the right level, thereby releasing senior managers to focus on strategy rather than operations. Governance arrangements have been established to ensure projects and programmes remain aligned to corporate objectives. The key elements of the initiative are as follows: • A Capital Portfolio Office (CPO) to support the delivery of Major Projects; • Project, programme and portfolio standards that are based on those developed by the One Council Programme Management Office, but go further and take into account the complexity and nature of Major Capital projects; • Project and programme management capability developed across the organisation; • Governance arrangements with clear and defined responsibilities for everyone involved in projects and programmes; and • A gateway review process that ensures programmes and projects remain aligned to the Corporate and Regeneration strategies. (Source: LB Brent Project Management Initiative Overview February 2011) **Purpose of audit work** - To assist management to determine any revisions potentially needed at this stage, as opposed to waiting until the framework has been fully embedded. Internal Audit have drawn upon examples of good practice in other organisations, as appropriate. It should be noted that an assurance opinion has not been provided in respect of the adequacy of controls, as the focus was only on undertaking a reasonableness assessment. Further work will be considered in the future, primarily in respect of the extent to which the implemented framework is being complied with and is operating effectively for a sample of projects. **Summary of Findings** - Overall, on the basis of the documentation provided and the discussions held, the Framework appears to be relatively comprehensive, with key expected elements covered. Three recommendations have been raised in respect of further elements which will help to ensure the robustness of the arrangements. The recommendations relate to the following: • The identification of a 'Benefits Manager' post, or recognition of an associated risk if this cannot be

	resourced; • The revision of the Risk Log Guidelines to take account of the time required to implement mitigating actions, rather than just the potential timeframe of risks occurring; and • Expanding the process for reporting on forecast costs, to take account of all anticipated final costs, rather than simply those picked up through the change control mechanism. There is also a need to ensure that the Framework and all associated documentation can be readily accessed by all officers and stakeholders as required. However, we haven't raised a recommendation regarding this, given that we have been informed that the Framework is due to be published on the intranet, thereby addressing the issues with gaining access via the shared drives.

CRC Readiness	The CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment; 'CRC' or 'the Scheme') is a mandatory energy efficiency scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations. As a qualifying organisation, the Council was required to register with the Environment Agency (EA), the administrator for the Scheme, by 30 September 2010 and will need to comply legally with the requirements of it. The Council will need to monitor its emissions and purchase allowances for each tonne of CO2 emitted in April 2012. The Council's energy use must be reported in an annual report to the EA by the last working day of July following each CRC year end. In the first year, a footprint report is also required. Using a risk-based assessment, the EA will select approximately 20% of organisations for audit each year. The EA will publish a league table each October which will be made public, showing the emissions of the organisations that have participated in the scheme. The Scheme is likely to have a number of significant impacts on the Council. These include the cost involved in purchasing allowances; the administration required to monitor energy use and to draw together the data reported to the EA (including an evidence pack); and civil and criminal penalties, as well as reputational impacts from publicity in the event of non-compliance. Finally, it requires ongoing application of energy efficiency measures and/or fuel switching to reduce carbon footprinting and therefore minimise CRC cost and potential reputational impacts of the league table. Over the past 18 months, using Deloitte's sustainability specialists, Audit has supported the Council in preparing for CRC with a series of workshops and reports, including an assessment of the Council's readiness for the Scheme. As above, all organisations in scope of CRC reporting were required to submit a CRC Annual Report and Footprint Report to the EA by 29 July 2011. This latest piece of work was requested to be undertaken prior to submission of the reports to assist senior management with understanding the Council's readiness for CRC reporting and for any subsequent audit by the EA. It should be noted that the aim of the work was not to validate or confirm the completeness and accuracy of the data to be submitted by the Council. On the basis of the scope, Internal Audit only highlighted any weaknesses identified in the process applied to compile the data, or any issues noted in the data itself, if picked up through sample testing. Management were responsible for addressing these as appropriate prior to submission. The work undertaken by Internal Audit did not identify any errors in the data compiled for reporting, for the sample tested, nor did it identify any significant weaknesses identified in the process for preparation of the CRC reports. However, there were some issues that need to be resolved prior to CRC submission in this and subsequent years.

AUDITS AT DRAFT REPORT STAGE or IN PROGRESS

Each of the following audits have been completed and Draft Reports issued. At the time of writing, these have not been finalised as responses have not been received from management with regards to the recommendations raised.

2011/12 Audits

Audit	Status as at 30 November 2011
Financial Assessments of Adult Social Care Clients	Draft Report
School Health and Safety	Draft Report
Carlton Vale School	Draft Report
Gladstone Park Primary School	Draft Report
Princess Frederica C of E Primary School	Draft Report
NWLJ Primary School	Draft Report (awaiting additional information / documentary evidence))
Leasehold Management & Service Charges (BHP)	Draft Report
Kensal Rise Primary School	Draft Report
Pre-Paid Card (Staff)	Draft Report
Pre-Paid Card (Beneficiaries)	Draft Report
Poplar Grove PRU	Draft Report awaiting review
Conflict of Interests (Employees)	Draft Report in Progress
Park Lane Primary School	Work in Progress (Further information/documents to be provided)
Business Continuity Planning	Work in Progress
Financial Planning	Work in Progress
Stage Lane PRU	Work In Progress

Audit	Status as at 30 November 2011
Repairs & Maintenance	Work In Progress
Pension Fund Investments	Work In Progress
Equality Impact Assessment	Work In Progress
Housing and Council Tax Benefits	Work in Progress
Payroll	Work in Progress
Brent Transport Services	Work in Progress
Domestic Violence	Work in Progress
Malorees Junior School	Work in Progress

Follow-Up of Previously Raised Recommendations

The table below provides a summary of the findings from the follow-up work completed since the previous meeting of the Committee, excluding any BHP recommendations.

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

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

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

Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Blue Badges	-	1	-	1	-	-	-	-	-	1	1	-	-	-
Freedom Passes	-	-	1	1	-	-	-	1	-	1	1	-	-	-
School Admission	1	-	-	3	-	-	-	-	-	4	-	-		-
Framework I Financials	-	-	-	-	-	-	3	2	2	3	2	2	-	-
Copland School	3	1	-	7	-	-	-	-	-	10	1	-	-	-
Total	**4**	**2**	**1**	**12**	**-**	**-**	**3**	**3**	**2**	**19**	**5**	**2**	**-**	

Appendix A – Audit Team and Contact Details

London Borough of Brent	Contact Details
Simon Lane – Head of Audit & Investigations	simon.lane@brent.gov.uk 020 8937 1260
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Deloitte & Touche Public Sector Internal Audit Limited	Contact Details
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Phil Lawson – Sector Manager	
Miyako Fujii – Senior Audit Manager	
Shahab Hussein – Computer Audit Sector Manager	

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	Audit Committee 15 December 2011 **Report from the Director of Finance and Corporate Services**
For Information	Wards Affected: ALL
Risk Management Policy	

1. Summary

1.1. This report sets out proposals for the development of risk management across the council.

2. Recommendations

2.1. The Audit Committee agree the proposed risk management policy and strategy as set out in appendix 1.

3. Detail

Background

3.1. The council's risk management strategy was last endorsed by the Audit Committee in December 2008[1]. This set out, in a 23 page guidance note, the allocation of responsibility for the management of ten high level corporate risk categories to various corporate groups (i.e. the Strategic Finance Group for finance risks, the Procurement Forum for procurement risks); the assessment of risks and guidance on specific service level risks. The report contained a commitment to provide a follow up report on high level risks following completion of the 2009/10 service planning process. This did not occur.

3.2. During 2009 a number of presentations on the new strategy were delivered by the Procurement and Risk Management Team to Departmental Management Teams. Although key risks were included within individual service plans for 2009/10 it is unclear how well these were documented within the council wide risk management database, Acertus. This system was decommissioned in 2010 and although the data was copied to an excel spreadsheet, the data is unusuable in its current form.

3.3. Some risk information is captured within service planning documents and the Departmental Scorecards, as set out in the Performance Planning Guidance Framework 2011-12[2]. However, recording and assessment is inconsistent across the organisation.

3.4. Linking risks to performance documentation ensures that risks are clearly associated with departmental and council objectives, which is a primary requisite of effective risk management. However, there is no uniform system within departments to record any further risk details, such as the inherent (raw) risk score, i.e. the evaluation of the risk prior to any controls being applied and the subsequent residual score.

3.5. The Risk Management Group, which attempted to ensure some common understanding of risk management and uniformity of risk scoring has not met for a number of years and it is, currently, unclear how well risk management is understood by the organisation.

3.6. Until October 2010 the responsibility for the co-ordination of risk management activity sat within the Procurement and Risk Management Team within Finance and Corporate Resources. The procurement function was transferred to Legal and Democratic Services together with all resources. The responsibility for developing / re-engineering risk management was transferred to the Head of Audit and Investigations. No additional resource was allocated to Audit and Investigations for this purpose, nor is there any spare capacity.

3.7. This report sets out a proposed mechanism for identifying and monitoring risks across the orgnaisation. It is mindful of the severe pressures and resource constraints impacting upon managers and, accordingly, recommends a simplified Risk Management Process.

4. Strategy

4.1. The council has a risk management strategy, as agreed by the Audit Committee in December 2008. This strategy provides some good basic definitions and sets out some principles of risk ownership, i.e. CMT are responsible for managing the Corporate Hotspots through the Policy Co-ordination Group; Corporate Risk Categories are assigned to corporate groups; and Departmental Management Teams are responsible for ther own service based risks. Although the strategy benefits from being relatively short it does not cover some crucial areas such as risks within projects or partnerships. The associated guidance, which is lengthy, sets out 10 cross council or “corporate level” risks and allocates ownership of these to a number of corporate groups (it is unclear how many of these still exist). It is anticipated that all service level risks will fall into one of these corporate level risks.

4.2. There is inherent confusion in this system, for example the corporate risk of inappropriate data loss is assigned to the Information Governance Group whilst a specific service manager will be responsible for ensuring data is not saved onto inappropriate media by staff. There is also much duplication of

team and corporate risk, such as inability to recruit and retain staff. It is also debatable as to whether the Corporate Hotspot List is a substitute for a high level risk register, given it does not attempt to evaluate risk or provide control information.

4.3. The strategy has, therefore, been redrafted, removing reference to group ownership of risks and setting out a simplified process in which operational risk is identified from the bottom of the organisation upwards with the Corporate Management Team considering the high level risks, any additional strategic or reputational risk and feeding these into a single council wide register. Departmental Directors will be responsible for collating all their service area risks and reporting the most significant through to CMT. CMT will have responsibility for identifying, reviewing, managing and reporting on the council's most significant risks. Whilst the Corporate Hot Spot list can remain for its own purposes, it must not be seen as the main method of managing the organisaiton's key risks.

4.4. There are many risk scoring models available but it is recognised that any method needs to be simple, widely understood with a common understanding of how to evaluate risk. The previous system used a detailed scoring mechanism which could provide an infinite number of different scores using many decimal places. This proved unworkable and resulted in scoring anomalies. Ultimately, the scoring translated into a basic 3x3 non-numeric categorisation, i.e. high, low, medium applied to both likelihood and impact. Whilst simple this can lead to confusion i.e. should a "high low" combination be considered the same as a "low high".

4.5. A single numeric value is considered to be easily understood and, therefore, a 6x6 model is being proposed. Likelihood and impact will be ranked on a 1 to 6, integer only scale. This should give sufficient scope to enable the council to differentiate its more significant risks and to identify which controls are most important.

4.6. Most risk management models require the orgnisation to identify its risk appetite. This is the level of risk the organisation is prepared to accept. In a numerically scored model this would be a value, above which a risk requires controlling. The organisation can set different appetites for different risks and determine what level of acceptable risk it allows to be delegated. In fully functioning risk management systems, when the residual risk rises above the appetite level, the riks would be escalated to more senior management. This process is considered, at present, too sophiscated for the authority. It is essential that the basic concepts are fully embedded before risk appetites are set. To compensate, Departmental Directors will be made fully aware of all the risks across their departments when they consolidate the risk registers from each section and will be made responsible for escalating to CMT any risks which are not being sufficiently managed.

4.7. Significant risks will need to appear on the service planning scorecards in a revised format to ensure that adequate detail is collected. The recommendation is that the Strategy, Partnerships and Improvement Directorate (SPI) assume responsibility for ensuring that risk management

documentation is completed as part of the performance management framework.

4.8. There will be a small element of duplication with the risk logs maintained within the project management documentation associated with the one council projects, and other council wide projects. These risks logs only record the risk as an issue. However, given the fundamental importance of these projects it is likely that some of the risks to those individual projects will be significant enough to appear on the risk registers. Again, only basic information is held on the risk log and it will be a matter for the relevant Departmental Director to ensure that significant project risks are also recorded on relevant departmental registers.

Communication and Training

4.9. The Audit and Investigations Team visited all DMT's in the early part of the year to discuss key risks and float the idea of a simplified risk management structure. This seemed to be welcomed by all.

4.10. Discussions have been held with the Assistant Director Policy within SPI who has indicated that the team will be able to fulfil the collation function as part of the performance management framework.

4.11. Although the Procurement and Risk Management Team attempted to roll out a training programme in 2009/10, the success of this is unknown. Given the risk register has not been updated for some time and the changes in the structure of the council, it is considered appropriate that further training is given to managers, if only to assist them in initial risk identification and scoring. There is no spare capacity within Audit and Investigations or any specific expertise in risk management training. A number of contingency days from the audit plan have already been used to develop the new strategy and to provide training to DMTs.

5. Financial Implications

5.1. None

6. Legal Implications

6.1. The Accounts and Audit Regulations (England) 2011 section 4(1) require the council to *"ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."*

6.2. Further section 5 (1) (4) (i) requires that the Director of Finance and Corporate Services determines accounting control systems which include adequate measaures to ensure that risk is appropriately managed.

7. Contact Officer Details

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Telephone – 020 8937 1260

Clive Heaphy
Director of Finance and Corporate Services

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Risk Management Policy

The Risk Management Policy (the Policy) forms part of the Council's internal control and governance arrangements. The Policy sets out the Council's overall commitment and approach to risk management.

Purpose

This document sets out the Council's policy in relation to the management of external and internal risks. The aim of risk management is not necessarily to eliminate risks completely, but to ensure that risks are identified, evaluated and economically managed.

Risk management is not just the prevention or mitigation of unwanted consequences but is also the about identifying opportunities and assessing their risks

Background

The Council and its partners provide a wide range of services to the local community, many of which give rise to risks. The Council has a statutory responsibility to have effective arrangements in place for the management of risk. Notwithstanding that requirement, good managers proactively manage risks to help the achievement of objectives. Regular identification, assessment and control will help minimise the impact of risk upon service delivery.

Policy

The Council recognises the need for effective risk management to assist in the achievement of its objectives.

The Corporate Management Team will maintain a corporate strategic risk register which it reviews at least quarterly, detailing the key risks for the Council and assigning appropriate responsibility for managing those risks.

Managers are responsible for managing risks within their own service areas. Directors are responsible for reviewing, on a regular basis, their key risks across their department and within any partnership working and for putting in place arrangements to manage that risk.

The Audit Committee will monitor, on behalf of the Council, the effectiveness of the risk management process and review, on a periodic basis, the Council's strategic risk register.

The risk management process needs to be easily understood, cost effective and controls to mitigate risk must be proportionate to the potential impact should a risk materialise.

Most risks cannot be completely eliminated by controls and the level of residual acceptable risk is a matter for managers to assess within a risk appetite. The Council recognises that a single risk appetite cannot be set for all services as different risks carry

different levels of impact. Determining the level of acceptable risk within a particular service area is, therefore, a matter for management.

Key risks will appear in performance planning documentation. These will have associated entries in either departmental or the corporate risk register.

Risk Management Strategy

The Risk Management Strategy (the Strategy) sets out how the Policy will be implemented, based on the objectives listed in 2 below.

1. Definition and Scope

Risk has traditionally been defined as being the threat that an event or action will adversely affect the Council's ability to achieve its objectives. Increasingly, this is seen as too negative a view and a more appropriate view is that risk arises as much from our failing to respond to business opportunities when pursuing strategic and operational objectives, as it does from a threat that something bad will happen.

Risk *is therefore* ***an uncertainty of outcome whether it is a positive opportunity or a negative threat****.* This means an event or action adversely affecting the Council's ability to achieve its objectives or successfully execute its strategy and or limit its ability to exploit opportunities. There are also risks associated with not taking a particular course of action.

Risk is an inevitable part of everyday business and cannot be eliminated - but it can be managed.

Risk Management *is* ***the planned and systematic approach to the identification, evaluation and economic management of the risks associated with the Council's activities****.* It is a key element of the corporate governance framework.

Inherent (Raw) Risk *is the level of risk faced by the Council prior to any controls being put in place.*

Control *is the processes, policies and procedures used to govern the Council's work or any additional controls or mitigating actions taken to deal with a particular situation.* A judgement has to be made by the risk owner as to the numerical reduction to the inherent (raw) risk score to produce the residual (net) risk score.

Residual (Net) Risk *is the level of risk faced by the Council after controls have been applied.*

Acceptable Risk *is the threshold value, assessed by management, above which a risk cannot be allowed to go* - i.e. the amount of risk the Council is prepared to tolerate before action is required.

2. Objectives

The Council's objectives with respect to risk management are to:

- Integrate risk management into the *culture* of the Council and thereby minimise the likelihood of service objectives being jeopardised;
- Promote ownership of risk by Council officers;
- Anticipate and respond to *changing* social, environmental and legislative requirements;
- Improve management of risk by taking account of threats and opportunities associated with internal and external changes that may impact the Council's risk profile;
- Improve the efficient use of resources and the appropriate targeting of key risk areas;
- Ensure departments complete an analysis of their risk exposure, develop realistic control plans and take actions to reduce the likelihood of risks materialising and /or reducing the severity of consequences should risks occur; and
- Ensure that risks are monitored on an ongoing basis.

These objectives will be achieved by:

- Integrating risk management in all key business processes.
- Establishing a consistent approach/process to risk management across the Council.
- Establishing clear roles and responsibilities.
- Providing risk management awareness training.
- Providing support and development for those involved in risk management activities.
- Reviewing the effectiveness of risk management processes on an ongoing basis.

3. Timeline

September 2011 to December 2011

Risk Management Policy to be endorsed by CMT.

Risk Management Policy to be endorsed by Audit Committee.

Risk Management Policy, Strategy and guidance to be disseminated to DMTs and service managers.

September to October 2011

Series of risk workshops facilitated by Deloitte.

October 2011

Service Plans and Performance Scorecards updated with risk information

November 2011

Departmental Registers collated from Service Plans and Scorecards and forwarded to A&I.

Corporate Register established by CMT.

December 2011

Review by Audit Committee.

Overview

Good managers are constantly engaged in risk management. Evaluating threats to delivery of service objectives and managing or mitigating those threats. Good managers will also look for opportunities to improve or become more efficient. The taking of these opportunities is encouraged provided the risks have been assessed and are controlled to within an acceptable level of risk.

Although there is a statutory responsibility within the Accounts and Audit (England) Regulations 2011 to have effective risk management, it is, in any event widely recognised as good management practice.

Risk management is about assessing the likelihood of potential events and their impact on the achievement of objectives. Therefore, risks must be linked to one of the Council's corporate objectives, either directly or through departmental or division objectives, or to one of the Health and Wellbeing Workstreams. These objectives are set out in the Performance Planning Guidance 2011-12.

Risk management is an integral part of planning services and performance management. Risk registers should therefore be closely aligned with the departmental Performance Improvement Plan / Service Plans and Quarterly Scorecard. Risks should be linked to agreed objectives. Risks can rarely be eliminated unless a function is terminated, an option not usually available to the Council. Controls must be proportionate in terms of cost and time to the risk they are attempting to mitigate.

Assessing the likelihood of an event is more an art than a science. An educated guess based on knowledge of previous events and other known future changes is often the best that is achievable. For those events over which we have no control, i.e. severe weather, the likelihood cannot be influenced by controls, only the impact. Therefore, the likelihood that a building project is delayed due to bad weather cannot be reduced by implementing a control. The impact though could be by having a penalty clause for delay built into a contract. Similarly, the impact of some events may not be reduced by a control, for example, if an individual is killed or injured whilst conducting a home visit. Having procedures to identify potentially violent customers will reduce the likelihood of the event materialising.

Assigning a Value to Risk

The point of assigning a value or score to a risk before controls have been applied (inherent (raw) risk score) is to allow some prioritisation of the most risky events and to assess the importance of controls. The Council should be focused on controlling their highest priority risks - to be clear; this is those risks which have the highest inherent (raw) risk scores. A second score is then assigned once the existing controls have been taken account of (residual (net) risk score). The controls applied

should be subject to review and those which have the most effect on reducing risk, would normally be the controls which should be assessed by management and audit on a more frequent basis. The more reliance placed upon a control, the more important it is. Alternatively, if the residual (net) risk score is still higher than is considered acceptable, this suggests that the existing controls are not sufficient and hence that further actions need to be taken to lower the residual exposure.

There are many ways of scoring risk. The Council recognises that this needs to be simple enough to enable common understanding of what a score means and have enough flexibility to cope with the wide range of activities undertaken across the Council. The Council has opted for a 6x6 model. This means that the likelihood of an event happening is ranked on a 1 to 6 scale as is the impact. The risk score is obtained by multiplying likelihood with impact. The highest risk will be scored at 36, i.e. 6x6, the lowest at 1, i.e. 1x1.

Responsibilities

Audit Committee

The Audit Committee, on behalf of the Council, will approve and monitor the risk management strategy and risk registers.

Corporate Management Team

CMT will maintain a corporate risk register of the highest priority Council wide risks and be responsible for managing those risks. The risks will feed into a Council wide risk register.

Departmental Managers

The managers of the eight Council departments are responsible for ensuring their key risks are adequately documented in either service plans or quarterly performance scorecards and ensuring that key risks within their departments are reviewed on a regular basis and managed.

Service Managers / Heads of Service

Individual service managers and heads of units are responsible for identifying and managing specific risks within their areas. They are expected to highlight their key risks for inclusion within Departmental Risk Registers to feed into service planning / performance documentation.

Project Management Office

The PMO has a unique role in that it should have oversight of the key risks affecting the One Council programme. This programme has a key role to play in ensuring the

Council's objectives are delivered and, therefore, any significant risk to an individual project represents a potential threat to overall objectives. It is, therefore, essential that the PMO ensures risks within risk logs are assessed and, where appropriate, feature on the Council wide risk register, as well as in the individual project risk log.

Strategy, Partnership and Improvement

Are responsible for ensuring that risk registers are properly completed within service planning and performance documentation.

Audit and Investigations

Will collate the Council's risk register, provide reports to the Audit Committee and provide advice and guidance to managers on risk management.

Process

Service managers will identify their own risks and feed these through DMTs. Departmental directors then pass their key risks up through to CMT. CMT will determine which departmental risks will feature on the corporate strategic register and will add their own risks and collate any themed or common risks. Service managers will utilise the template endorsed by CMT on which to record their risks. The register will show the relevant objective, the risk to that objective, an inherent or raw risk score, a residual risk score and a brief description of the controls in place to mitigate the risk causing a reduction in the score. There may be a number of controls for one risk; these do not need to be separately shown. It will also identify the person who is responsible for managing the risk.

Service Managers must recognise the risks associated with partnership working and include these, where significant, in their registers.

These risks will be reviewed on a quarterly basis by DMTs and the Department Director is responsible for consolidating these risks into a department wide register. Therefore, the Council expects each department to maintain, within its service planning documentation, a consolidated register of its risks, in a prescribed format. These risks need to be scored in a uniform way to ensure that the most significant risks are easily identified. The register must provide a brief description of the controls and the residual risk score after the controls are in place and assumed to be operational. This register will form part of the service planning and performance scorecard documentation. Provided risks are adequately captured in these documents, there is no requirement to maintain a separate risk register.

The Strategy, Partnership and Improvement Team will extract the risk registers from planning and performance documentation and pass these on a quarterly basis to Audit and Investigations. The Head of Audit and Investigations will arrange for the register to be reviewed by the Audit Committee at periodic intervals.

Risks which are associated with individual projects would normally be captured within a risk log as part of project documentation. Where risks within projects have potential to undermine the achievement of wider Council objectives they need to also be included in risk registers. Project risks tend only to be a brief description of the risk and control with no assessment of the likelihood or impact. Therefore, inclusion in the risk template will require some additional assessment.

Guidance

The attached spreadsheet sets out the register's format.

The following system should be used to identify and assess risk:

1. Set out the service area objective which is at risk (this should be consistent with the objectives set out in your Performance Improvement Plan, unless there are underlying core objectives relating to your area of operations which haven't specifically been focused on in the Performance Improvement Plan, but which are key from an operational perspective / service delivery perspective).
2. For each objective, identify the events which may occur which would have an impact upon achievement if they did occur.
3. With no controls in place, assess the likelihood of that event occurring using a 1 to 6 rating - see Appendix 1.
4. Assess the impact of that risk if it actually occurs, using a 1 to 6 rating - see Appendix 1.
5. Identify existing controls and their strength.
6. Re-assess the likelihood and impact assuming controls are working as intended.
7. Determine what to do about the residual risk, if anything - is it tolerable, do you treat it (implement a further control or action), transfer it or terminate the activity.
8. Assign a responsible officer to implement the actions.

Risk Appetite

In using the 6x6 scoring system, a consistent methodology for measuring and scoring risks will be applied throughout the Council. The Council has not set an overall risk appetite and it is for departmental directors to determine their own appetite. The appetite can be applied across a department by setting an acceptable score for residual risk.

For example: any residual (net) risk score of 9 or less is considered acceptable (unless the impact is very serious); between 10 and 20 could be acceptable provided DMT approval is given (unless the impact is serious or very serious); and anything rated 24 or higher would need to be signed off by CMT. This concept can be simply demonstrated by the table below, using a traffic light coding system.

Impact	**6**	6	12	18	24	30	36
	5	5	10	15	20	25	30
	4	4	8	12	16	20	24
	3	3	6	9	12	15	18
	2	2	4	6	8	10	12
	1	1	2	3	4	5	6
		1	**2**	**3**	**4**	**5**	**6**
		Likelihood					

Where the residual (net) risk score is considered unacceptable e.g. a red or amber residual risk score, an action plan will need to be developed to address weaknesses in existing controls or implement new controls. Some of these control weaknesses are likely to feature in the Council's Annual Governance Statement.

Reporting of Risk

Reporting will be as follows:

- CMT is responsible for evaluating and managing the Council's key corporate risks to ensure the achievement of objectives contained within the Borough Plan. The Corporate Risk Register will be reviewed by CMT and reported to Audit Committee.
- There will be an annual review of the Council's Policy and Strategy to be reported to Audit Committee each year.

- Directors and Heads of Service are responsible for ensuring that risk is considered at the point of setting objectives within the Performance Improvement Plan, and also that key risks are evaluated and that there are processes / controls in place to manage these risks. A separate departmental risk register needs to be formulated and maintained on an ongoing basis, with formal review by DMTs on at least a quarterly basis.
- Directors are responsible for bringing to CMT any significant issues / risks (e.g. any residual red risks) as they arise during the year, particularly if only limited action is possible.
- Directors are responsible for signing off residual risks as part of the annual controls assurance process in support of the Council's Annual Governance Statement.

IMPACT AND LIKELIHOOD GUIDE **Appendix 1**

The table below represents guidance and is not intended to be a definitive listing.

Impact Category	Descriptor	Impact Guide
Financial	1 Insignificant	Financial loss up to £50,000
	2 Minor	Financial loss up to £100,000
	3 Moderate	Financial loss up to £200,000
	4 Significant	Financial loss up to £300,000
	5 Serious	Financial loss up to £500,000
	6 Very serious	Financial loss above £1,000,000
Compliance	1 Insignificant	No regulatory consequence
	2 Minor	Minor breach of duty, legal action unlikely
	3 Moderate	Moderate breach of duty resulting in possible disciplinary action, legal action possible
	4 Significant	Significant breach of duty resulting in disciplinary action, legal action probable
	5 Serious	Serious breach of duty resulting in fines/disciplinary action, legal action expected
	6 Very serious	Major breach of duty resulting in possible imprisonment, legal action almost certain and difficult to defend
Service Delivery	1 Insignificant	Insignificant disruption on internal business and no loss of customer service
	2 Minor	Possible significant disruption to internal business and no loss of customer service Lasting less than 24 hours Affects a single or few services
	3 Moderate	Disruption to internal business or possible disruption to services to non-vulnerable groups Lasting 1 to 2 days Affects a single directorate
	4 Significant	Disruption to internal business or probable disruption to services to non-vulnerable groups Lasting 2 to 3 days Affects more than one directorate
	5 Serious	Disruption to services to non-vulnerable groups and possible disruption to services to vulnerable groups Lasting 3 to 5 days Affects most directorates
	6 Very serious	Prolonged disruption to services to vulnerable groups Lasting more than 5 days Affects the whole Council
Environmental	1 Insignificant	No or insignificant environmental damage
	2 Minor	Minor local environmental contamination with short term effects

	3 Moderate	Moderate local environmental damage with short term effects
	4 Significant	Significant local environmental damage with short to medium term effects
	5 Serious	Major local environmental damage with medium term effects
	6 Very serious	Major local and national environmental damage with long term effects for the local area
Reputational	1 Insignificant	No reputational damage or adverse publicity
	2 Minor	Minor/limited reputational damage or internal adverse publicity
	3 Moderate	Moderate reputational damage or possible local adverse publicity
	4 Significant	Significant reputational damage or probable local adverse publicity
	5 Serious	Substantial/widespread reputational damage or possible national adverse publicity
	6 Very serious	Major/severe reputational damage and national adverse publicity Central Government interest/administration
Personal Safety	1 Insignificant	No impact on personal safety
	2 Minor	Minor injury or discomfort, not requiring first aid
	3 Moderate	Short-term injury, possibly requiring first aid or limited medical attention
	4 Significant	Medium-term injury, requiring first aid or medical attention
	5 Serious	Extensive, permanent / long term injury for an individual or several people
	6 Very Serious	Death or life threatening situation for an individual or several people

Descriptor	**Likelihood Guide**
1 Rarely	<5% likely to occur in next 12 months Is not judged as credible / very unlikely
2 Unlikely	5% - 20% likely to occur in next 12 months
3 Possibly	20% - 40% likely to occur in next 12 months
4 Likely	40% - 60% likely to occur in next 12 months
5 Probably	60% - 80% likely to occur in next 12 months
6 Almost certainly	>80% likely to occur in next 12 months / More likely than not / almost certainly

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Audit Committee
15 December 2011

Report from the Director of Finance and Corporate Services

For Information

Wards Affected:
ALL

Use of Surveillance and CHIS for 2010/11

1. Summary

1.1. The purpose of this report is to advise members on the council's use of covert surveillance and covert human intelligence sources (CHIS) for 2010/11 and the period April 2011 to November 2011.

2. Recommendations

2.1. The Audit Committee note the content of the report.

3. Detail

Background

3.1. This report is the third annual report on surveillance activity. The first report was issued in December 2009[1]. These reports are intended to address the oversight role set out in the Home Office Codes of Practice[2, 3]. "Best Practice," as set out in paragraph 3.30 of the Code requires that elected members should review the use of directed surveillance and set the policy at least once a year. The Code also requires that members consider "internal reports" on the use of surveillance and chis on a quarterly basis to ensure they are being used in accordance with the council's policy and that the policies remain fit for purpose.

3.2. These are relatively new requirements arising from concerns that some local authorities were misusing the powers. These concerns primarily arose from negative publicity in the latter part of 2008 as a result of one authority using surveillance to investigate a allegation of fraud within the school admissions process. Although much of the coverage was misleading, the Home Office responded with a review of the RIPA legislation and issued a consultation on

whether the powers should be used by Local Authorities, for what and who should authorise them. The consultation ended in July 2009 and the new codes of practice came into force on 6th April 2010.

3.3. The main thrust of the negative publicity was that councils were inappropriately using powers conferred for anti-terrorism purposes to investigate minor offences. Although the coverage misrepresented the purpose of the legislation, which makes no mention of anti-terrorist activity, it was the case that a small number of authorities were using surveillance for what were, considered to be, trivial matters. Of particular concern was the use of surveillance by Poole Council to follow a family to determine whether or not they had misrepresented their permanent address on a school admission application. In July 2010 the Investigatory Powers Tribunal ruled that surveillance in such circumstances was inappropriate, determining that there must be real intent to bring criminal proceedings if surveillance is to be authorised.

3.4. The new coalition government's manifesto committed to limiting the surveillance powers of local authorities to "serious crime" with a requirement to gain authorisation from a magistrate. A RIPA Review was undertaken by Lord Donaldson QC and this has resulted in a number of changes being included within the Protection of Freedoms Bill which is currently at the Committee Stage in the House of Lords.

3.5. The restrictions within the Protection of Freedoms Bill relate to the threshold for offences which can be considered for surveillance, which must carry a custodial sentence of more than six months and the requirement to obtain approval from a magistrate. There are some 20 bodies empowered to use RIPA, Local Authorities are the only organisation who are being restricted in this way. These new restrictions have attracted criticism from the government's own regulatory body for surveillance, the Office of the Surveillance Commissioner. In his annual report[4] for 2010/11 he stated,

"Reports relating to local authority use of covert surveillance have been misleading and often inaccurate. I have identified no systemic attempts to misuse legislation… I expressed particular concern regarding the proposal to require local authorities to seek approval for their covert surveillance from magistrates. Leaving aside the cost of training and reimbursing many more magistrates than there are authorising officers, it is not apparent why local authorities should be treated differently from other public authorities and, as is apparent from this and my previous Annual Reports, local authorities are, generally speaking, exercising their powers properly. The higher threshold in the proposed legislation will reduce the number of cases in which local authorities have the protection of RIPA when conducting covert surveillance… I anticipate unnecessary complications resulting from the use of magistrates and confusion regarding the threshold for local authority authorisation if the current proposals in the Protection of Freedoms Bill are adopted."

3.6. Despite such evidence it is likely that the government will press ahead with these restrictions. A further report will be presented to committee once the

legislation has been enacted.

Control of Surveillance

3.7. RIPA and the Codes of Practice require certain procedures to be followed and considerations to be given prior to surveillance being authorised. The authorisation has to be done by a designated officer and there are safeguards in place regulating the length of time an operation can be authorised for and to ensure there is ongoing review of live operations.

3.8. RIPA also created the Office of Surveillance Commissioners (OSC) to carry out oversight on behalf of the Government to ensure the powers were being used appropriately. The Commissioners carry out regular on site inspections and the council has been the subject of four inspections, with a fifth due in February 2011.

3.9. Local authorities are permitted, under RIPA, to conduct a number of covert activities. These are: Directed surveillance, Covert Human Intelligence Sources (CHIS) and obtaining communication subscriber and traffic data. Councils may not conduct intrusive surveillance, which is surveillance coducted in any private place. Neither may councils obtain the content of communications, i.e. listen into phone calls or intercept emails. The surveillance methods available are:

- Directed surveillance - covert monitoring of individuals in a public place for the purposes of a specific investigation. It does not include general cctv use, although cctv used to monitor specific individuals would constitute directed surveillance.

- CHIS - any person, either employed directly by the council or a third party informant who is directed by the council to obtain and provide information about the subject of an investigation.

- Communication data - details of the subscriber to a telephone or email account or records of calls made from a specific telephone number.

3.10. The council has a policy and procedure manual which has been issued to all units who conduct surveillance. This manual covers the procedures for the authorisation of directed surveillance, covert human intelligence sources and accessing communications data. The manual also covers issues of proportionality, necessity, collateral intrusion and the right to privacy. The policy is currently under review pending the introduction of the Protection of Freedoms Bill and once this is enacted, the policy will be presented to members for approval.

3.11. The procedure is effectively governed by the legislation and statutory guidance. Each surveillance operation must be authorised by an authorising officer. The key tests are whether the authorising officer considers the surveillance to be necessary (surveillance is used only as a last resort and all other avenues of investigation have been explored), proportionate (the level of intrusion is balanced against the seriousness otf the alleged criminal offence)

and that issues of colateral intrusion (the intrusion into innocent third parties) have been considered. These tests must all be applied prior to authorisation and the authorising officer is required to state, on the application form, what they have considered and what surveillance activity is being authorised. Operatives must remain within the scope of the application.

3.12. Details of all surveillance operations are held on a central record maintained by Legal Services. Surveillance cannot take place without a unique reference number being issued by Legal Services. Copies of authorisations and all subsequent forms are kept with Legal Services for audit purposes. Legal Services conduct periodic audits to ensure the relevant tests are being applied.

Surveillance Activity

3.13. Between 1st April 2010 and 31st March 2011, 43 authorisations were given for directed surveillance. A further 23 have been authorised in the period 1st April 2011 to 30th November 2011. These are summarised in table 1 below together with a comparison against previous years' figures. There have been no authorisations for Covert Human Intelligence Sources (CHIS):

Service Unit	2007/08	2008/09	2009/10	2010/11	Apr 11 – Nov 11
Trading Standards	12 Counterfieting, under age sales, licensing	22 Counterfietin g (9) Under age sales (13)	17 Counterfeiting, under age sales, licensing, Fraud.	14 Test Purchasing Counterfeit Goods Theft from Multiple parking meters in LBB	6
Audit and Investigati ons	10 Housing Benefit Fraud (3) Housing Sub-Letting (4) False ill-health claim (1) Blue Badge Misuse (2)	10 Housing Benefit Fraud (2) Housing (5) Direct Payments (1) Blue Badge Misuse (3)	7 2 Blue Badge 2 Fraudulent Council tenancy 3 Housing & Council Tax Benefit Fraud	2 Blue Badge Fraud	1
Housing	5 Anti-Social Behaviour (5)	3 Anti-Social Behaviour (3)	1 Anti-Social Behaviour (1)	0	1
Social Services	1 Child Protection (1)	2 Child Protection (2)	0	0	
Streetcare			1 Criminal Damage [Graffiti]	8 Commercial Fly Tipping Criminal Damage	4
Total	28	37	26	24	12

Table 1 – Surveillance Operations by Service Areat April 2007 to November 2011

3.14. For the Trading Standards Service, 5 of the 14 authorisations in 2010/11 have led to a legal action being taken, resulting in a total of 16 individuals being successfully prosecuted. Three further cases have pending legal proceedings.

3.15. Authorisations of interest include Operation Capital which saw six Wembley Market traders convicted for selling counterfeit goods. Three of these traders received a curfew and were electronically tagged, two received community service totalling 240 hours between them, one case the defendant is awaiting sentencing and the final investigation is still in the Court system. Costs have been awarded in these cases totalling £2,892.

3.16. A similar operation called Orbit took place later in the year resulting in a further four market traders being taken to Court for selling counterfeit goods. One trader who had previous convictions for selling hooky designer wear received a 200 hour community order and was ordered to pay £2,000 costs. Another received a 100 hour community order and had £1,256 confiscated from him whilst two others received a fine or conditional discharge with a total of £418 confiscated from them.

3.17. RIPA authorisation is regularly obtained for underage sales operations. In 2010/11 five prosecutions were taken for illegal underage sales, three of which included the sale of fireworks. By coincidence, all three cases resulted in fines of £1,000 with a collective total of £1,000 costs being payable to the Service

3.18. Streetcare were the other main users of surveillance during 2010/11.

3.19. The Audit and Investigations Team have conducted very few surveillance operations since April 2011. An analysis of activity since April 2003 shows that 74 cases have been closed where surveillance has been used. Of these, 28 resulted in no further action. Of the remaining 46 cases, 17 resulted in criminal convictions for benefit fraud in excess of £960,000 with a further 9 sanctions applied to benefit fraud cases worth £150,000. 14 council properties were recovered and seven right to buy applications refused, 6 staff were either dismissed or resigned for fraud and a further 13 cases resulted in some other form of sanction.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. Statutory Instrument 521 of 2010, to be read in conjunction with the Codes of Practice on Covert Surveillance and Property Interference, paragraph 3.29, requires the appointment of a Senior Responsible Officer. This officer must be a member of the corporate leadership team (CMT) and should be responsible for ensuring that all aurhtorising officers are of an appropriate standard. The council's SRO is currently the Head of Legal and Procurement.

5.2. The Protection of Freedoms Bill is currently at the House of Lords Committee Stage. Current proposals within the bill will mean significant changes for surveillance activity within local government. This includes:

(a) Magistrates Approval

- The local authority will have to seek approval from a Magistrate prior to conducting any surveillance
- This will be in addition to the authorisation currently needed by a LA Senior Manager and the more general oversight by elected councillors as set out in the new Codes

(b) Serious Offence Test

- Local authorities will only be able to use surveillance where the offence under investigation carries a possible custodial sentence of 6 months or more. However, this limit will not apply to test purchasing

6. Diversity Implications

6.1. None

7. Background Papers

1. Report from the Director of Finance and Corporate Resources to the Audit Committee. 17th December 2009. *Use of Directed Surveillance*
2. Home Office (2009). *Covert Surveillance and Property Interference. Revised Codes of Practice.* Retrieved 2nd December 2010 from: http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-codes-of-practice/
3. Home Office (2009). *Covert Human Intelligence Sources. Revised Codes of Practice.* Retrieved 2nd December 2010 from: http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-codes-of-practice/
4. Office of the Surveillance Commissioner (2011). *OSC Annual Report*

8. Contact Officer Details

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