



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Wednesday 22 February 2012 at 7.30 pm

PRESENT: Mr Stephen Wood (Independent Chair) and Councillors Al-Ebadi, Ashraf and Van Kalwala

Also Present: Councillor S Choudhary

1. Declarations of personal and prejudicial interests

None declared.

2. Minutes of the previous meeting

RESOLVED:-

that the minutes of the previous meeting held on 15 December 2011 be approved as an accurate record of the meeting subject to the following amendments:

In clause 5, delete the first and second sentences and replace with;

“Andrea White introduced the Tough Times report and circulated detailed recommendations of the Report that the Audit Commission was making to local authorities. The Report was a result of surveys undertaken”.

In clause 8 paragraph 5, insert “non IT” before “Project Management Framework”.

3. Matters arising

None.

4. Deputations

None.

5. Audit Commission Annual audit letter and governance report

The Committee received a report that set out progress against the recommendations in the Annual Governance Report. Mick Bowden, Deputy Director of Finance and Corporate Services in introducing the report provided updates for action plans as follows:

- (i) Review of financial reporting and year end closedown plan had been undertaken. Two key members of the Finance team involved in year-end process had attended the Audit Commission training course which had been followed by the Commission's presentation to finance staff on 2010/11 audit feedback audit and key issues for 2011/12.
- (ii) Timetables for central finance team, finance business partners and budget holders had been produced to ensure statutory timescales would be met.
- (iii) All relevant accounting requirements covered by final accounts plan had been provided and a review of the approach to the Heritage Assets with Audit Commission was well advanced.
- (iv) Robust closedown plan was shared with the Audit Commission and were being used as the basis for weekly review meetings between Council and Audit Commission officers.
- (v) Officers were currently reviewing the working paper requirements list provided by the Audit Commission.
- (vi) Although the latest review of PFI agreements (Jan 2012) had not identified changes a further review was planned for year end.
- (vii) Monthly reports to Strategic Finance Group (SFG) had continued and Audit Commission officers invited to attend the SFG meeting in March.
- (viii) Officers had completed the reconciliation of migrated balances in debtors and creditors and were now focussing on 2011/12 entries in advance of year end.
- (ix) Work on outstanding items had been completed and officers were now working on current entries as part of an on-going reconciliation process.
- (x) Bank balance reconciliation had been completed and as at 31 January 2012 the bank reconciliation difference was £46,000.
- (xi) Overall analytical review of debtor/creditor balances would be completed at year end.
- (xii) Currently in discussion with the Audit Commission regarding two key issues (valuations of housing stock and treatment of non-maintained schools) to agree treatment in advance of year end.
- (xiii) The latest requirements had been reviewed to identify changes. In some cases (eg. HRA subsidy changes), technical guidance was still awaited from CIPFA and would be incorporated when published.
- (xiv) The budget report to Executive had set out risks and a proposal to increase non-earmarked reserves by £1m in 2012/13.

- (xv) Audit Commission would review progress against action plan in March/April 2012.

In response to a query by the Chair, the Deputy Director confirmed that the timetable set for various activities was on schedule and that he would second resources to the schools' team to address the shortage being caused through staff turnover of staff in that team. Clive Heaphy, Director of Finance and Corporate Services clarified the methodology used in arriving at the £1million reserves to deal with medium term risks. He continued that as an added transparency, briefing notes were being made available to members through reports to the One Council Overview and Scrutiny Committee.

Andrea White, District Auditor expressed satisfaction with the processes and reviews including close down plans. However, she pointed out that capacity remained an issue and suggested a culture shift and "round table meetings". She added that this conclusion had been made clear in her progress report to the Committee. Paul Viljoen, Audit Manager confirmed that that he had been inputting into the weekly meeting to which the Deputy Director referred.

In bringing the discussion to a close, the Chair suggested that reports on further progress made be sent electronically to all members of the Audit committee and that briefing notes reported to One Council Overview and scrutiny be appended to reports for future meetings of this Committee.

RESOLVED:

- (i) that the progress report in relation to the action plan be noted;
- (ii) that the Annual Audit Letter reported to the Executive on 16 January 2012 be noted;
- (iii) that a further progress report made be e-mailed to members of Audit Committee around April 2012
- (iv) that the Audit Commission members' briefing notes be reported to the Budget and Finance Overview and Scrutiny Committee as and when they are published and are appended to the Commission's progress reports for future meetings of this Committee.

6. Audit Commission Reports: Progress Report 2010/11; Certification of Claims and Returns 2010/11; Audit Plans 2011/12

Members received a report that presented a number of reports from the Audit Commission. Paul Viljoen, (Audit Manager) of the Audit Commission in presenting the report informed members that the first audit was completed in January 2012 and focussed on updating documentation including key financial systems and monitoring progress on recommendations from the 2010/11 Annual Governance Statement.

He concluded that the arrangements in place for preparation and certification of grants were reasonable and not inconsistent with other London Boroughs and whilst the Council had made some considerable improvements in the quality of data this year there still remained some residual stock inaccuracies which needed to be addressed. He highlighted the recommendations arising from the certification and the actions agreed for implementation. He added that due to the complex case mix randomly supplied in the audit of housing, council tax benefit scheme and national non-domestic rates return his audit fee had increased to £92,000.

Andrea White, District Auditor (DA), in presenting the audit plan for 2011/12 drew members' attention to significant risks and audit responses to them highlighting in particular, close down arrangements, defined benefit pension liability, housing revenue account (HRA) reform and the treatment of assets for schools. In commenting on the Council's value for money, the DA referred to a recent CLG survey which identified the Council as the London Borough holding the lowest value of general fund reserves and welcomed the Council's plans to address the balances. She also undertook to monitor the Council's two significant capital projects; South Kilburn regeneration scheme and the new civic centre as the basis for future planned savings through more efficient ways of working.

The DA clarified the basis of the total audit fee of £439,200 in response to Councillor Choudhary's enquiry adding that if additional work was required to be undertaken, the audit fee would be increased but only after discussing it with the Director of Finance and Corporate Services. In concluding her presentation on the audit plan, the DA drew members' attention to the list of questions to which she required the Audit Committee to provide answers by 30 April 2012. The DA also gave a similar presentation on the pension fund accounts adding that she would review the basis of valuation and perform tests on detail of valuations.

Councillor Ashraf sought guidance on the timescale for submitting responses to the list of questions which the DA required members of the Committee to provide. Clive Heaphy undertook to send draft responses to members for comments by 31 March so as to ensure that the final response was sent to the DA by 30 April 2012.

RESOLVED:

that the progress report in relation to the action plan be noted.

7. 2012/13 Treasury Management Strategy and Annual Investment Strategy

Mick Bowden introduced the report that detailed the Treasury Management Strategy and Annual Investment Strategy for 2012/13. Members heard that due to a number of banks being downgraded by credit rating agencies officers had reacted to advice by suspending and removing those institutions from the lending list and reducing duration from one year to one month, leading to increased use of the debt management office at low yields. To address this, he proposed that additional money market funds of £5m (£12m previously) be added to the list and that overseas banks of the requisite credit quality in countries that had AAA/A+ credit ratings (Canada, USA and Australia) be added to the list.

In reference to the cash flow summary contained in the report, the Chair noted that the anticipated cash balances would be £21m and queried whether the figure reflected current situation. Mick Bowden corrected the figure to £11m but added that this reflected the longer term strategy to March 2013.

The Chair queried why the Strategy allowed 20% of funds to be invested for more than one year despite the fact that the report said that conditions were too volatile to invest any cash for this long. It was stated that such investments would not be made unless market conditions improved. Councillor Ashraf sought an update on the situation with the Icelandic banks. Clive Heaphy responded that in the case of Glitnir bank all deposits less legal fees would be received and for Heritable bank after a write off of 20%, about £8m would be received, adding that all receipts would accrue interests up to 2008.

RESOLVED:

that the 2012/13 Treasury management Strategy and Annual Investment Strategy be noted.

8. Future of local public audit

Clive Heaphy introduced the report which advised members of the proposal by the Audit Commission to appoint an interim auditor to cover the period 1 April 2012 to 31 August 2012. He advised members that the appointment was necessary to cover the period up to the point when the Audit Commission would award new contracts for the audit of local authorities following the disbanding of the audit practice arm of the Audit Commission. Members heard that the Audit Commission had proposed that Andrea White be appointed Interim Auditor for the period 1 April 2012 to 31 August 2012 and has written to the council accordingly. The Director added that the Council had no objections to the appointment of Andrea White as the District Auditor.

Andrea White clarified that by the end of her term as the Interim Auditor, the Commission would have selected a new contractor for a three or five year period, covering the 2012/13 accounts onwards. The length of appointment would have implications for the council's timetable on its own procurement of external audit. Should appointments be made for a three year period, the council would need to appoint its own auditors for the 2015/16 financial year. The government intends to legislate for that appointment to be made by 31st December 2014. She continued that once the legislation had been passed and decisions reached on the appointment term for the initial replacement for the Audit Commission contracts in 2012, the council would need to prepare a timetable for the appointment. This would include the establishment of the Independent Audit Appointment Panel, independently chaired.

In welcoming the proposals by the Audit Commission, Councillor Ashraf requested that regular updates be sent to members of the Audit Committee.

RESOLVED:

that the appointment of Andrea White as interim auditor for the council for the period 1 April 2012 to 31 August 2012 and the Government's response to the consultation on the Future of Local Public Audit be noted.

9. **Third internal audit progress report**

Simon Lane, Head of Audit and Investigations introduced a report that set out a summary of the work of Internal Audit for the period from 1 April 2011 to 31 January 2012 and the Investigation Team for the period 1 April 2011 to 31 December 2011. He informed members that a number of systems audits had been completed since the last report to Committee and others particularly the audit of key financial systems including work on Oracle Financials (accounts payable accounts receivable & general ledger); Housing & Council Tax Benefits) were in the process of being completed. He continued that a number of planned audits including the planned review of libraries, transformation of support functions in Environment and Neighbourhood Services, partnership working with external housing bodies and partnership working with the NHS had been removed from the plan due to delays in the implementation of the projects to which they related. He added that the number of days allocated for BHP was increased to take account of previously unplanned work and that computer audit work had progressed. Members noted that more limited assurances were made.

He highlighted a number of weaknesses identified in relation to school health and safety and Adult Social Care pre-paid cards and added that the recommendations made to address them, as set out in the report, would be implemented. Clive Heaphy explained that the Adult Social Care team had been restructured to a more focussed team and systems had been put in place to ensure that the problems encountered did not recur. He undertook to provide further updates on progress.

Phil Lawson, (Deloitte) drew members' attention to the summary of the findings from the follow-up work completed since the previous meeting of the Committee, excluding any BHP recommendations. He added that where any of the recommendations had been partly implemented or not implemented at all, further actions had been raised with management. In his view, the robust management plan put in place in response to the recommendations was positive.

The Chair noted that the overall picture presented in the report remained quite positive despite the difficult times.

RESOLVED:

that the progress made in achieving the 2011/12 Internal Audit Plan and the review of fraud work be noted.

10. **Verbal update on progress of strategic risk register & civic centre project risk register**

Clive Heaphy introduced a report that provided the committee with an example of a Project Risk Register (Civic Centre) as requested at the last meeting of the Committee on 15 December 2011. He highlighted some of the key risks that could impact upon the delivery of the civic centre and set out the mitigation strategy as follows:

Site access during the Olympic Games would be determined and written into the contract. In order to overcome the possibility of the main sub-station not being made available by December 2011, every support would be given to QED in their negotiations with UK Power networks. As any disruption on site during the 2012 Olympic Games could delay construction, delivery and occupation of the building, early discussions would be held with the London Olympic Committee of the Olympic Games (LOCOG). He added that officers would also monitor closely, exceptionally adverse weather conditions and its impact on the civic centre.

The Director continued that although the civic centre project was ahead of its original schedule and on budget, officers would closely monitor all key risks with robust risk framework and each departmental risk assessed and collated for Corporate Management Team (CMT) and the Executive.

During discussions, the Chair expressed concern at the lack of progress in the Risk Management Strategy and related registers. He pointed out that deadlines were continually missed pointing out that for example, risk registers had been promised at two previous meetings and were again not available. Clive Heaphy explained that the Chief Executive wanted the register to be approved by the Corporate Management Team (CMT) prior to going to the Audit Committee but there had not been time to achieve this. Councillor Butt, Deputy Leader and Executive Member for Corporate Services assured the committee that he would work with senior officers to ensure that the opportunity to see the register was not missed again. The Chair suggested the inclusion of the corporate risk register and the mitigating steps taken on the agenda for the next meeting.

RESOLVED:

- (i) that the Committee's concern on the lack of progress on the Risk Management Strategy and Risk Register be brought to the attention of the CMT;
- (ii) that the update on the civic centre project risk register be noted.

11. **Draft Internal Audit Plan & Audit Needs Assessment for 2012/13**

Simon Lane, Head of Audit and Investigations, introduced the report that set out the Draft Internal Audit Plan ("the Plan) for 2012/13 and an update on the Audit Needs Assessment ('ANA'). He advised the Committee that the final audit plan would continue to be delivered through a partnership of the Council's in-house team and

Deloitte & Touche Public Sector Internal Audit Limited. The finalised audit plan would be presented for formal approval at the next scheduled meeting of the Audit Committee in June. He added that the Brent Housing Partnership (BHP) Plan would be presented separately to their Audit & Finance Sub-Committee for approval.

He drew members' attention to the table that set out the proposed number of days against each audit, together with a high level indication of the proposed coverage, the initial key contact, and an indication of the proposed timing where this was known. Simon Lane advised that whilst all areas of the Council's operations were potentially subject to internal audit coverage, given resource constraints, not all areas could be audited on an annual basis. He continued that for 2012/13, the Internal Audit Team would attend Departmental Management Team (DMT) meetings. Phil Lawson concurred with the presentation.

In response to the Chair's enquiry for a specific allocation to be made for risk management, Simon Lane replied that the Internal Audit team would be monitoring submissions on risk via the quarterly scorecard information collated through Strategy, Partnership and Improvement. The Committee requested that an additional specific piece of work on the risk management process be built into the audit plan. This was agreed.

Clive Heaphy added that given the increased levels of changes taking place nationally and across the Council, the approach to formulating the Plan had been further strengthened through a formal Audit Needs Assessment (ANA). In order to help ensure that all key risk areas including new and emerging risks were identified, the ANA had been focused around a set of internal and external risk factors as set out in the report.

RESOLVED:

- (i) that the approach being taken to formulate the plan for the 2012/13 financial year and the content of the draft plan, in line with the Committee's role, as defined in the Constitution be noted;
- (ii) that approval be given to the commencement of work against the Annual Internal Audit Plan for the 2012/13 financial year, from 1 April 2012 with the final plan to be approved at the next scheduled meeting.

12. Any other urgent business

None.

13. Date of next meeting

The date of next meeting would be confirmed after the Annual meeting of the Council in May 2012.

The meeting closed at 9.40 pm

S WOOD
Chair