



Audit Committee

Thursday, 24 September 2009 at 7.30 pm
Committee Room 1, Brent Town Hall, Forty Lane,
Wembley HA9 9HD

Membership:

Members

Councillors:

Cummins (Chair)
HM Patel (Vice-Chair)
Butt

first alternates

Councillors:

Dunn
HB Patel
John

Second alternates

Councillors:

Pagnamenta
Detre
Beswick

For further information contact: Jonathan Howard, Democratic Services Officer
0208 937 1362 jonathan.howard@brent.gov.uk

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

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

2	Deputations	
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3	Minutes of the previous meeting	
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4	Matters arising	
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5	Statement of accounts 2008/09 Annual governance report	1 - 46
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Under the Council's Constitution, the General Purposes Committee has responsibility for approving the accounts, which it did on 30th June 2009. The Audit Committee, however, has responsibility for reviewing the annual statement of accounts to ensure that appropriate accounting policies have been followed and, where required, that concerns arising from the financial statements or from the audit are brought to the attention of the Council.

Ward Affected:	Contact Officer: Duncan McLeod, Director of Finance and Corporate Resources
All Wards	Tel: 020 8937 1424 duncan.mcleod@brent.gov.uk

6	First Internal Audit Progress Report 2009/10	47 - 106
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This report sets out a summary of the work of Internal Audit for the period from 1 April 2009 to 31st August 2009. The attached report provides further details of this together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since the start of the financial year.

Ward Affected:	Contact Officer: Duncan McLeod, Director of Finance and Corporate Resources
All Wards	Tel: 020 8937 1424 duncan.mcleod@brent.gov.uk

7 Treasury Management - Select Committee report on local authority investments in Icelandic banks 107 -
126

This report looks at developments since the last meeting of the Audit Committee. In particular, the House of Commons Select Committee has reported on the lessons to be learnt from the collapse of Icelandic banks with which local authorities had deposits.

Ward Affected: All Wards
Contact Officer: Martin Spriggs
Tel: 020 8937 1472
martin.spriggs@brent.gov.uk

8 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.


9 Date of next meeting

The next scheduled meeting of the Audit Committee is scheduled to be held on Thursday, 17th December 2009.



- 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

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	<p style="text-align: center;">Audit Committee Thursday 24th September 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
<p style="text-align: center;">Report Title: STATEMENT OF ACCOUNTS 2008/09 ANNUAL GOVERNANCE REPORT</p>	

Forward Plan Ref:

1.0 Summary

- 1.1 Under the Council's Constitution, the General Purposes Committee has responsibility for approving the accounts, which it did on 30th June 2009. The Audit Committee, however, has responsibility for reviewing the annual statement of accounts to ensure that appropriate accounting policies have been followed and, where required, that concerns arising from the financial statements or from the audit are brought to the attention of the Council.
- 1.2 The basis for this consideration is the Annual Governance Report which the Council's external auditors, the Audit Commission, produce following completion of the audit of accounts. The report is intended to identify any unadjusted mis-statements or material weaknesses in controls identified during the audit work.
- 1.3 A separate Annual Governance Report has been produced for the Pension Fund accounts. This will be considered by the Pension Fund Sub-Committee at its meeting on 24 September and any comments from that Sub-Committee will be reported to this Committee. However the responsibility for formally responding to the issues arising from the audit of the Pension Fund accounts rests with this Committee.
- 1.4 The Audit Commission are in the process of completing the audit of the 2008/09 accounts and the draft Annual Governance Reports, reflecting the current position, are attached to this report. Representatives from the Audit Commission will attend the meeting to provide an update on the audit and respond to any matters raised by the Committee.

2.0 Recommendations

The Committee is asked to:

2.1 Consider the Annual Governance Reports from the Audit Commission and the letter of representations to the Audit Commission

2.2 Consider the accounting policies that have been followed and decide whether any issues arising from the financial statements and the audit need to be brought to the attention of Full Council.

3.0 Detail

3.1 From the 2002/03 financial year onwards auditors were required to produce a report notifying members of any unadjusted mis-statements or material weaknesses in controls identified during their audit work. This requirement was partly prompted by the strengthening of accounting and audit standards after the “Enron Affair”. The aim was to ensure transparency of process to those with a responsibility for the accounts.

3.2 This is the third year that the Audit Committee has been responsible for examining the external auditors’ report on issues arising from the audit of the accounts. Prior to 2006/07 this report was received by General Purposes Committee. Audit Committee can review the accounts 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.

3.3 Members should note that each year there is a statutory 20 day period for public inspection of the accounts. The public can inspect and make copies of the accounts and all books, deeds, contracts, bills, vouchers and receipts related to them. This excludes personal information such as staff salaries. The 20 days for public inspection of the 2008/09 accounts were from 29th July to 25th August 2009 inclusive. No members of the public asked to inspect the 2008/09 accounts during the statutory period.

3.4 At the time of writing this report the Audit Commission has substantially completed its audit of the accounts. The draft Annual Governance Reports provide key messages from the audit, including:

- Opinion on the financial statements
- Adjustments to the draft accounts
- Internal control issues
- Recommendations for future improvements

3.5 In addition, each year the Council sends a letter of representation to the external auditors about the annual accounts. Draft letters are included in the attached reports.

3.5 General Purposes Committee approved Brent’s 2008/09 accounts on 30th June 2009. There have been a few changes to the accounts during the audit process, as set out in the Annual Governance Reports. The revised accounts will be circulated to the Committee when they have been finalised with the Audit Commission.

4.0 Financial Implications

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

5.0 Legal Implications

- 5.1 No specific implications.

6.0 Diversity Implications

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

7.0 Staffing Implications

- 7.1 None Specific

8.0 Background Information

- 8.1 Draft 2008/09 Statement of Accounts, General Purposes Committee, 30th June 2009.

9.0 Contact Officer

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

DUNCAN McLEOD
Director of Finance and Corporate Resources

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Annual Governance Report

Brent London Borough Council

Audit 2008/09

September 2009

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Status of our reports

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

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

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance and Corporate Resources on 9 September 2009 and has been updated since as issues have been resolved.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Andrea White
District Auditor
24 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from error	No	7
Adequate internal control environment	Yes	7
Use of resources	Results	Page
Use of resources judgements	Yes	10
Arrangements to secure value for money	Yes	10

Audit opinion

- 1 Subject to satisfactory resolution of the remaining issue noted in paragraph 12, I expect to issue an unqualified opinion on the financial statements, which were approved by the General Purposes Committee on 30 June 2009.
- 2 The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the Council has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit. Due to outstanding legal proceedings I cannot formally conclude the audit and issue my certificate. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

Financial statements

- 3 The draft financial statements were submitted for audit on 30 June 2009 in accordance with the agreed timetable. These financial statements were complete but contained errors which have been amended in the final version.

Key messages

- 4 My audit identified 5 matters which resulted in a material change to the main financial statements as detailed in paragraph 14. In addition, further non-trivial changes were made, these are summarised in appendix 2.

Use of resources

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

Audit Fees

- 6 The total indicative fee set in my 2008/09 Audit Plan issued in May 2009 was £441,500. The actual fee charged is yet to be determined, however it is likely to be higher than originally planned due to additional detailed audit work required at a departmental level to complete our audit of the Council's financial statements. This arose because of the complexity of the Council's general ledger systems and the consequential impact on the Council's audit trails and on our testing strategy.

Table 1 Audit fee for 2008/09

Audit area	Actual fee 2008/09 (£000s)	Proposed fee 2008/09 (£000s)
Audit fee	TBD	441,500

TBD = to be determined. We will assess the overall impact of the additional work we have carried out on our audit fee once the audit has been completed and report this to the Audit Committee.

Pension Fund

- 7 A separate Pension Fund Annual Governance Report was taken to the Pension Fund Sub-Committee on 24 September 2009. This was so that the issues arising from the audit of the Pension Fund could be discussed with those who are best placed to take action on the issues identified.
- 8 The Audit Committee remain, however, 'Those Charged with Governance' for the financial statements which include the Pension Fund statements. The Pension Fund AGR should therefore be considered alongside this report, but with the assurance that the Superannuation Investments Committee has already reviewed this.
- 9 My audit opinion at Appendix 1 in this report covers the main statements, inclusive of the Pension Fund statements.

Next steps

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

10 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

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

Opinion on the financial statements

- 11** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 12** My work on fixed assets is substantially complete but not yet finalised. I expect to conclude my work in this area shortly and will report any significant additional findings to the Council and to the Audit Committee.

Materiality

- 13** In undertaking my audit I planned and carried out my audit applying the concept of materiality. As part of my audit I am required to obtain reasonable assurance that the financial statements are free from material misstatement. A material item within the financial statements is one which would affect the reader's view of the accounts.

Errors in the financial statements

- 14** My audit identified a number of issues which resulted in a change to the draft financial statements.
- 15** During 2008/09 the Council obtained a valuation of certain leisure and educational land and building operational assets as part of its 5 year rolling programme. The valuation reported an upward valuation of some assets by £34.43 million and a downward valuation of some assets by £19.97 million. The Council's treatment in the draft financial statements was not correct as the downward revaluation should have been recognised through the Income and Expenditure account. The impact of this amendment is to increase the revaluation reserve by £19.97 million.
- 16** A number of other non-trivial adjustments were made to the draft financial statements and these are summarised in appendix 2. An accounts memorandum providing more detail on these matters and making recommendations for improving financial accounting processes will be made available to officers. There are no governance issues arising from these findings that I wish to bring to your attention. Taken together,

these non-trivial adjustments do not affect the level of available reserves or the Council's net worth.

Recommendation

R1 The Council should strengthen its procedures for fixed asset accounting.

Material weaknesses in internal control

- 17** I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. A number of significant internal control issues have, however, arisen with regard to the Council's accounts payable and receivable systems. These are reported in table 2.
- 18** 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 our attention because of the audit procedures we have performed.

Table 2 Weaknesses in internal control

Issue or risk	Finding
The Council identified a control weakness in its procedures over the financial management of Foundation Schools. This has been reflected in the Annual Governance Statement (AGS).	The Council has strengthened its arrangements in respect of controls in place over Foundation Schools.
Since the introduction of the Council new payroll system difficulties have been experienced in undertaking reconciliations on the payroll system to the general ledger. As a result some monthly reconciliations were not undertaken.	The year end reconciliation has been produced and the Council is now undertaking monthly reconciliations.

Letter of representation

- 19** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

20 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 3.

Table 3 **Key areas of judgement and audit risk**

Issue or risk	Finding
In 2007/08 a periodic review of the accounting treatment of foundation schools was not undertaken. We will review the Council's response to our recommendation and whether the Council have put in place arrangements to carry out periodic reviews of the status of foundation schools, particularly when there are any changes / new schools added to the portfolio.	The Council has undertaken a review of the accounting treatment of Foundation School's fixed assets in 2008/09 and put arrangements in place for periodic reviews.
Last year we recommended that the Council should maintain detailed listings of infrastructure assets to aid compliance with new accounting standards being introduced from 2010/11.	The Council has revised its arrangements and a more detailed analysis of infrastructure assets is now being maintained.
Payroll reconciliations are not being undertaken on a regular basis since the introduction of the payroll system in 2007/08.	Refer to findings outlined in table 2.
Our review of Internal Audit's work highlighted that the Council are not undertaking regular reconciliations between the Abacus system maintained in Adult Care and the general ledger.	The year end reconciliation was obtained and reviewed.
The current economic climate increases the likelihood of impairment occurring to Council fixed assets and financial instruments.	The Council have considered the impact of price falls on its fixed asset base and made adjustments accordingly. Impairment of financial instruments has been reviewed and no reporting issues were identified.

Use of resources

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

Value for money conclusion

- 21** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOEs are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.
- 22** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Use of resources judgements

- 23** My work on use of resources is nearing completion. Once our quality processes have been completed, I will report to the Council on the individual use of resources assessments against each KLOE, together with a commentary on the main findings and areas to address.

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

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Brent for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes.. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on

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

Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of (name of authority) in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

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

appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority’s responsibilities

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

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

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

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

Delay in certification of completion of the audit

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Brent pension fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. Due to outstanding legal proceedings I cannot formally conclude the audit and issue my certificate. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 4 Adjustments to the Income and Expenditure Account and Balance Sheet

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Capital adjustment account	To account for impairment of leisure and schools assets in line with SORP.			19,967	
Revaluation reserve					19,967
Net cost of services		19,967			
SMGFB			19,967		
Capital adjustment account	To account for impairment of HRA assets in line with SORP.			338	
Revaluation reserve					338
Net cost of services		338			
SMGFB			338		
Tangible fixed assets	To recognise the omitted land in respect of a primary school in the financial statements			3,425	
Revaluation reserve					3,425
Creditors – HRA	Reclassification of	610			

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Payments in advance	creditor balances.		610		
Debtors	Overstatement of debtor balance due to income being received before year end but not recognised.				345
Cash				345	

Appendix 3 – Draft letter of representation

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

London Borough of Brent - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts, Group Accounts and the Pension Fund accounts included within the financial statements..

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

Supporting records

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

Related party transactions

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

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

Appendix 3 – Draft letter of representation

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

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 body 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 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 Council'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.

Specific representations

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

We confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2009.

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

Signed
Name Gareth Daniel
Position: Chief Executive
Date

Signed
Name Councillor Cummins
Position: Chair of the Audit Committee
Date

Appendix 4 – Value for money criteria

Table 5 summarises my findings against the value for money conclusion for each of the three Use of Resources themes.

Table 5 Value for money criteria

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

The workforce criterion was not assessed in 2008/09.

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2008/09 - Recommendations					
7	R1 The Council should strengthen its procedures for fixed asset accounting.	2	Deputy Director of Finance and Corporate Resources	Yes	Our review of the closedown process will include a focus on fixed assets. We have commenced our planning for the 2009/10 accounts, as part of the implementation of IFRS, and will continue to liaise with the Audit Commission to ensure our systems and processes comply with the new arrangements.	31 March 2010

The Audit Commission

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

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

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Annual Governance Report

London Borough of Brent Pension Fund

Audit 2008/09

September 2009

DRAFT

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non executive directors, members or officers and 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.

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance and Corporate Resources on 9 September 2009 and has been updated since as issues have been resolved.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2); and

Yours faithfully

Andrea White
District Auditor
24 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Audit opinion

- 1 My audit is now substantially complete and, subject to the satisfactory conclusion of outstanding audit procedures, I expect to issue an unqualified opinion on the financial statements subsequent to approval of the final statements by the Council. The text of the draft opinion is included at Appendix 1.
- 2 The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit.

Financial statements

- 3 The financial statements and notes submitted for audit were complete. A good audit trail was provided to support the financial statements. There were some minor disclosure errors identified during the course of the audit which were subsequently amended by management.

Audit Fee

- 4 The total indicative fee set in my 2008/09 Audit Plan issued in March 2009 was £38,000. The actual fee charged was in line with expectations.

Next steps

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

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

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

Opinion on the financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Please note that Appendix 1 is my full report on the Council's financial statements, which incorporates the opinion on the Pension Fund. Those sections pertinent to the Pension Fund are on pages 10 and 11.
- 7 My work on unquoted investments is substantially complete but not yet finalised. I expect to conclude my work in this area shortly and will report any significant additional findings to the Council and to the Audit Committee.
- 8 I cannot formally conclude the audit and issue a certificate as the Annual Report on the Pension Fund has not been prepared. In addition I am unable to issue a certificate due to outstanding legal proceedings. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

Materiality

- 9 In undertaking my audit I planned and carried out my audit applying the concept of materiality. As part of my audit I am required to obtain reasonable assurance that the financial statements are free from material misstatement. A material item within the financial statements is one which would affect the reader's view of the accounts.

Errors in the financial statements

- 10 The financial statements submitted for audit were complete. We noted the following errors on the financial statements:
 - **Note 6 – reclassification of lump sum benefits.** There was a reclassification of £46,000 of lump sum benefits between scheduled bodies and Brent Council.
 - **Note 10 – opening balances.** Equities from one fund manager had been disclosed at mid price rather than bid-price and therefore were not in line with the SORP. The adjustment resulted in an amendment of £202,000.

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

Material weaknesses in internal control

11 I have not identified any material weaknesses in internal control.

Letter of representation

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

Key areas of judgement and audit risk

13 Areas of judgement and specific audit risk were considered during the course of the audit. Our findings are set out in Table 1.

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

Issue or risk	Finding
Contributions With effect from 1 April 2008, employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be being deducted and collected at the right rates.	The Council has put adequate arrangements in place for the deduction of contributions. Audit work concluded that contributions are presented fairly in the financial statements.
Investments The volatility in world financial markets impacts upon the value of the Pension Fund's investments holdings. There are risks around accurate recording at the year end.	The Council has accurately recorded year end investments holdings in its pension fund.
Annual Report New regulations require the preparation of an annual report for the Pension Fund incorporating the annual accounts.	The Council intends of producing and publishing an annual report for the Pension Fund by 30 November 2009. The Council have produced a draft Governance Statement.
Statement of Recommended Practice (SORP) The Pension SORP requires a new valuation method for investments with effect from 2008/09.	The Council materially complied with the Pension SORP and has reflected investments at bid rather than mid-market value, with one exception. (see paragraph 9 for details).

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

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Brent for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes.. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory

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

requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of (name of authority) in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

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

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

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority’s responsibilities

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

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing

economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

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

Delay in certification of completion of the audit

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Brent pension fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. Due to outstanding legal proceedings I cannot formally conclude the audit and issue my certificate. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2 Adjustments to the Pension Fund

Adjusted misstatements	Nature of adjustment	Fund Account		Net Asset Statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 6: Lump sum benefits – Brent	Reclassification of lump sum benefits between Brent and scheduled bodies	46			
Note 6: Lump sum benefits – Scheduled bodies			46		
Note 10: Opening balances equities (£202k)	Adjusted to Bid price from Mid price				202

Audit Commission

Appendix 3 – Draft letter of representation

To: Andrea White
Audit Commission
Millbank Tower
1st Floor
Millbank
London
SW1P 4HQ

London Borough of Brent Pension Fund - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of London Borough of Brent Pension Fund, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

Supporting records

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

Related party transactions

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

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

Appendix 3 – Draft letter of representation

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

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 body 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 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 Council'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 24 September 2009.

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

Signed
Name Gareth Daniel
Position: Chief Executive
Date

Signed
Name Councillor Cummins
Position: Chair of the Audit Committee
Date

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	<p style="text-align: center;">Audit Committee 24th September 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Information	Wards Affected: ALL
Report Title: 1st Internal Audit Progress Report 2009/10	

1. Summary

- 1.1. This report sets out a summary of the work of Internal Audit for the period from 1 April 2009 to 31st August 2009. The attached report provides further details of this together with the assurance ratings and priority 1 recommendations of those audits for which the final reports have been issued since the start of the financial year.

2. Recommendations

- 2.1. The Audit Committee note the progress made in achieving the 2009/10 Internal Audit Plan and the proposals for the future audit arrangements for foundation schools.

3. Detail

- 3.1. The Internal Audit Plan for 2009/10¹ comprises 1211 days, of which 951 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 260 to the in-house team. Of the total, 45 days were carried forward from 2008/09 to assist with the completion of Financial Management Standards in Schools (FMSiS) assessments in the primary schools, as previously agreed by the Audit Committee.
- 3.2. At the end of August 2009, a total of 474 days had been delivered against the overall Plan, made up of 370 Deloitte days and 104 in-house days. This represents 39% of the Plan and is a significant improvement to the position at the same time last year, at which point 351 days had been completed, representing 28% of the Plan.
- 3.3. In terms of the profile for 2009/10, in so far as it had been possible to allocate audits to a specific quarter prior to the start of the year, the majority of these

have been progressed as planned. Specific target percentages were not agreed for each quarter given that it had not been possible to profile all audits. Appendix 1 sets out the progress in detail.

- 3.4. As was the case in 2008/09, a significant amount of time has been spent in the year to date on undertaking further FMSIS assessments in the primary schools. The deadline for having all primary schools assessed is 31st March 2010. In addition, work has continued with Education Finance to strengthen common control weaknesses within schools, identified as part of the assessments. A key area of focus has been in relation to budget monitoring. Currently, the team is on target to assess all primary schools by the 31 March 2010 deadline, although this is dependent upon each of the schools being ready for their scheduled assessments.
- 3.5. In addition to the Schools, a wide range of systems audits and IT audits has been undertaken together with verification work in respect of the Local Area Agreement (LAA) Stretch Targets and the Supporting People Programme (SPP) Grant. Contract audit work has also been undertaken with Brent Housing Partnership (BHP) and is being planned in relation to the construction of the Civic Centre. Internal audit input has also been provided regarding the development of a project management framework for the Council.
- 3.6. Members will be aware of the concerns about financial management in one of the foundation schools in the borough. Until now, the council has relied upon the work of external audit contractors in providing assurance on the controls within foundation schools. This has been the case since the inception of foundation status when these schools were given the freedom to select their own internal audit provider and to contract independently with that provider. The council's requirements were that these audit reports were copied to the Audit and Investigation where they were reviewed for adequacy. In light of the problems now found in one foundation school, which were not picked up by the schools audit contractor, the Head of Audit considered, in his annual report to the Council, that this mechanism was no longer adequate. The internal audit of foundation schools has been brought back under the direct control of the Audit and Investigation Team and all of these schools are now covered within the council's internal audit plan.
- 3.7. This new approach has meant negotiation with foundation heads, who have previously enjoyed autonomy over this aspect of financial control and some were reluctant to agree to the change. This is, perhaps, understandable given they have not been visited by council auditors for a number of years and the nature of internal audit coverage is somewhat different from that undertaken by external contractors. That said, the council is unable to charge foundation schools for internal audit services and, therefore, there will be a direct financial saving to each school as they no longer need to pay for an external provider. All foundation heads, via the head teachers forum, have agreed to this new approach.
- 3.8. There is, however, an impact on the audit plan. No new resources are available to undertake this work, which has to be subsumed within the 1,211 audit days. There were 13 secondary foundation schools to be added to the

plan. These are large operations and require an estimated 10 to 12 days of coverage, particularly given the added risks due to lack of previous internal audit coverage. Six schools have been brought into the 2009/10 plan, including John Kelly Boys and Girls, which was audited for the purposes of transfer from foundation status to an academy in September 2009. John Kelly Boys and Girls will no longer fall under local authority responsibility from September 2009, leaving 11 secondary schools to be covered in the future. Seven schools will be audited as part of the 2010/11 plan. The frequency of future audits will be determined by a risk assessment following the first audit.

- 3.9. A more detailed summary of progress and key findings from our work is provided in appendix 1.

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 2009-10, *Audit Committee – 18th June 2009*.

8. Contact Officer Details

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

Duncan McLeod
Director of Finance and Corporate Resources

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**Internal Audit
Progress Report 2009/10
London Borough of Brent
September 2009**



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Executive Summary

Introduction	<p>This report sets out a summary of the work completed against the 2009/10 Internal Audit Plan for the financial year to date.</p> <p>In the report, a summary is provided 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. Also shown are draft reports which have been issued and are in the process of being agreed with management, or where audit fieldwork is currently in progress.</p> <p>As a new addition to the format of these reports, Appendix B sets out the full year's Plan, as agreed by the Committee in March 2009, together with an indication of progress at the individual audit level. As explained in March 2009, this year's Plan was profiled so as to provide the Committee with a clearer picture of the proportion of the total days that should be expected to be delivered at the time of each meeting, rather than assuming that there should be an equal split across quarters. Appendix B now provides the details of actual progress against that profile. In addition, it allows the Committee to monitor changes to the Plan during the course of the year and to provide comment, as appropriate, on the potential addition of any specific audits.</p>
Summary of progress against the Plan	<p>The overall Internal Audit Plan for 2009/10 comprises 1,211 days, of which 951 are allocated to Deloitte & Touche Public Sector Internal Audit Limited, and 260 to the in-house team. Of the total, 45 days were carried forward from 2008/09 to assist with the completion of Financial Management Standard in Schools (FMSiS) assessments in the primary schools, as previously agreed with the Committee.</p> <p>As at the end of August 2009, a total of 474 days had been delivered against the overall Plan, made up of 370 Deloitte days and 104 in-house days. This represents 39% of the Plan and is a significant improvement to the position at the same time last year, at which point a total of 351 days had been completed, representing only 28% of the Plan.</p> <p>In terms of the profile for 2009/10, in so far as it had been possible to allocate audits to a specific quarter prior to the start of the year, the majority of these have been progressed as planned. Specific target percentages were not agreed for each quarter given that it had not been possible to profile all audits, but Appendix B can be referred to for the detailed progress by audit.</p>

Summary of Work Undertaken

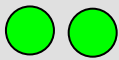



As was the case in 2008/09, a significant amount of time has been spent in the year to date on undertaking further FMSIS assessments in the primary schools, in order to progress towards the deadline of having all primary schools assessed by 31 March 2010. In addition, work has continued with Education Finance in order to help strengthen common control weaknesses identified as part of the assessments, so as to help ensure that the Council gains the maximum benefit from the perspective of the robustness of the internal controls in operation across the schools. A key area of focus has been in relation to budget monitoring and further developments for improving this aspect have been discussed with Education Finance. This input has been provided in such a way as to maintain audit independence whilst making a positive contribution to the strengthening of the overall control environment.

Currently the team are on target to assess all primary schools by the 31 March 2010 deadline, although this continues to be dependent upon each of the schools being ready for their scheduled assessments.

In addition to the Schools, a wide range of systems audits and IT audits has been undertaken, as well as verification work in respect of the Local Area Agreement (LAA) Stretch Targets and the Supporting People Programme (SPP) Grant. Contract audit work has also been undertaken with Brent Housing Partnership (BHP) and is being planned in relation to the construction of the Civic Centre. Initial audit input has been given regarding the development of a project management framework for the Council.

Summary of Assurance Opinions and Direction of Travel

For the work finalised against the 2009/10 Internal Audit Plan to date, a summary of the Assurance Opinions awarded is set out in the table below, together with a comparison to the 2008/09 and 2007/08 financial years. Please note that an Assurance Opinion is not applicable in all cases and BHP audits are not included within this analysis. Please see page 8 for the definition of each of these opinions.

	Full 	Substantial 	Limited 	None 
2007/08	-	42% (23)	58% (32)	-
2008/09	-	78% (21)	22% (6)	-
2009/10	-	33% (2)	67% (4)	-

In addition, in any cases where an internal audit has been completed against the same scope in a prior year, an assessment of the Direction of Travel is also provided. As shown in the table below, there have been no audits finalised for the year to date for which such an assessment has been applicable. Please

see page 9 for the definitions of the Direction of Travel.

	Improved ➡	Unchanged ↔	Deteriorated ←
2008/09	8	1	-
2009/10	-	-	-

Overall, for the work finalised for 2009/10 to date, there has been a deterioration in the proportion of Substantial and Limited assurance reports compared with the 2008/09. However, it is too early in the year to determine whether this is representative of the overall control environment, and it should be noted that each of the audits finalised to date have not been undertaken in either of the previous two financial years, hence the lack of a Direction of Travel assessment. At this stage, the decline in the spread of opinions is therefore not as a result of a specific decline in previously audited areas.

The overall position will be monitored through the course of the year, as per these progress reports. The key points of focus for the Committee in future meetings, will be the direction of travel for those audits undertaken on annual basis and also the extent to which previously raised recommendations are found to have been implemented as per the follow-up work.

FMSiS Assessments

FMSiS assessments of the primary schools have continued, with a further 16 schools having been assessed since the start of April 2009.

The table below summarises the progress made and the outcomes of the assessments completed. Further details are set out on page 20. It should be noted that the number shown as having achieved a 'Pass' in 2008/09 has increased since the previous meeting in June 2009 as a number of schools moved from a 'Conditional Pass' once they had provided the necessary further evidence to confirm that the outstanding actions had been satisfactorily addressed.

	Pass	Conditional Pass	Fail	In progress	Still to be assessed
2007/08	3	-	-	-	-
2008/09	27	6	-	-	-
2009/10	1	12	1	2	12

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

In terms of those schools still showing as being on a 'Conditional Pass' from 2008/09, a final extension has been agreed with Education Finance and the Director of Finance. This decision was made on the basis that the schools require further guidance / training on a new budget monitoring pro-forma provided to them by Education Finance. Once this has been provided, the schools should have more effective arrangements in place with regards to budget monitoring, hence helping to ensure that the control environment is strengthened as a result of the assessments. However, if the schools cannot demonstrate their understanding and application of the new pro-forma by the end of September 2009, it has been agreed with Education Finance and the Director of Finance that that these schools will be failed.

**Follow-Up of
Previously Raised
Recommendations**

With regards to the follow-up of recommendations raised and agreed with management, a more structured programme was introduced in 2008/09, as reported on to the Committee. In each progress report, a summary is provided of the overall level of implementation, together with a breakdown of the status of implementation for each audit followed-up.

This approach is being further developed and, therefore, limited follow-up work has been undertaken for the 2009/10 year to date. Under the revised approach, management will be responsible for completing a self assessment of the status of implementation of each of the recommendations originally raised, following the passing of the agreed deadlines for implementation. If management indicate that the recommendations have been implemented, this will be tested and a report will be issued. If it is found that the recommendations have not been fully implemented, either through verification or as indicated by management in their self assessment, then, as was previously the case, further actions will be identified as necessary and revised deadlines for completion will be agreed with management.

In all cases, where recommendations have not been fully implemented, the further actions will continue to be followed-up until the point at which full implementation is confirmed. Going forward, the intention is for the follow-up programme to be a rolling one as opposed to being restricted to an individual financial year. On this basis, the recommendations raised as part of a specific audit may be followed-up more than once in a single financial year, as well as potentially being followed-up in the same financial year to that which the audit was undertaken.

It is hoped that this will improve both the efficiency of the follow-up process and the extent to which management recognise the importance of undertaking their own monitoring of the implementation of recommendations.

The table on the following page summarises the degree to which recommendations have been implemented, based on the follow-up work that has been finalised to date. Further details of the specific audits to which this relates are set out on page 24.

	Implemented	Partly Implemented	Not Implemented
2008/09			
All Recommendations	66 (35%)	74 (40%)	47 (25%)
Priority 1 Recommendations	15 (30%)	25 (50%)	10 (20%)
2009/10			
All Recommendations	1 (20%)	-	4 (80%)
Priority 1 Recommendations	-	-	3 (100%)

To clarify the figures above, these relate to only one audit for which the follow-up work has been finalised in the year to date. This was completed prior to the introduction of the revised approach discussed above. At this stage it is not reasonable to draw any comparisons between this and the implementation rates shown for the follow-up work undertaken in 2008/09.

The new self assessments are currently being circulated and it is expected that we will be able to report more fully at the time of the December 2009 Committee meeting.

West London Framework

The Heads of Internal Audit from the four boroughs making up the West London Framework have continued to meet with Deloitte on a regular basis through the Contract Compliance Board (CCB). These meetings are used to discuss general progress as well as to consider specific areas in which cross borough work may be valuable and areas in which joint improvements can be made.

The Committee will be updated on any specific developments in future meetings, as appropriate.

Customer Satisfaction

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

Three completed questionnaires have been received to date in relation to the work undertaken by Deloitte in 2009/10. The average for the overall rating on each completed questionnaire is 3.66 out of 5. At this stage this is lower than the average overall rating for 2008/09 and slightly below that in 2007/08.

However, it still represents an average performance between 'satisfactory' and 'very good' and in two out of three cases the overall rating was the later of the two. The position will be monitored through the course of the year.

The detailed breakdown of this feedback is set out on page 25 this report.

Year	Average Overall Rating
2007/08	3.88
2008/09	4.40
2009/10 (to date)	3.67

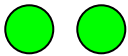



Detailed summary of work undertaken

This section provides a summary of the internal audits and FMSIS assessments commenced since 1 April 2009. A summary of the main findings and the Assurance Opinion are only provided for internal audits for which the final report has been issued. Please note that only priority 1 recommendations are listed in detail. Full reports for any of the audits can be provided to members upon request.

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

Assurance Opinions




Four categories are used to classify internal audit assurance over the processes examined. These are defined 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 categories provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

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

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

Recommendation Priorities


In order to assist management in using internal audit reports, 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.


Summary Table


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

New audits being reported as final

Audit	Status as at 11 September 2009	Assurance Opinion	
Home Care – Contract Management	<p>Final Report</p> <p>Three priority 1 recommendations were raised as a result of this audit. These were as follows:</p> <ul style="list-style-type: none"> • In light of the expected efficiency savings identified by management as part of the migration to the Framework-i financial module and the planned introduction of new electronic time monitoring system, management should review the current contract management arrangements to identify areas where time savings can be made and then determine whether these can be reallocated to resourcing home visits. As part of this, the current target of 10 home visits per month should be reviewed and consideration given to whether this represents adequate coverage given that this only equates to 120 visits, less than 10 percent of the average number of service users. <p>In addition, management should review the sampling method for home visits and ensure that the sample of visits selected each month provides adequate coverage of all service providers, taking into account the volume of services provided by each one and their star rating;</p> <ul style="list-style-type: none"> • Management should resume checking timesheets from Plan Personnel as a matter of priority. <p>In addition, where exceptions are identified as part of these checks, in addition to recouping the costs of service provision from</p>	Limited	

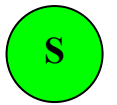

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>the relevant provider, further follow-up checks should be undertaken to determine whether the exceptions relate only to administrative issues or whether there are issues relating to actual service provision. To a certain extent it may be possible to draw conclusions from the findings of home visits and site visits to the provider's offices. However, consideration should be given to specifically contacting the service users to whom the exceptions relate so as to confirm that they have been receiving the agreed levels of care; and</p> <ul style="list-style-type: none"> Until Framework-i Financials is fully implemented and invoices are raised through this, the Contracts Team should resume cross checking of invoices against the credit sheet and ECCU on a monthly basis. Any exceptions should be noted and logged for deduction from the following month's payment to the relevant provider(s), as per the newly agreed arrangements. <p>In addition, any outstanding credit note requests should be followed up and issues should be escalated if no further response is received from service providers.</p> <p>Five priority 2 and one priority 3 recommendations were raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>		
Recruitment	<p>Final Report</p> <p>Three priority 1 recommendations were raised as a result of this audit. These were as follows:</p> <ul style="list-style-type: none"> Management should remind staff within the People Centre staff to retain all recruitment request documentation. Consideration should also be given to enforcing the use of a standard request form in all cases. <p>In addition, management should introduce a check to confirm that</p>	Limited	

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>the recruitment request being made has been appropriately approved within the relevant Service Area. This may be through restricting the officers able to submit requests, or through requiring the request form to be approved by a delegated officer;</p> <ul style="list-style-type: none"> • A timetable for completion of stages in the recruitment process is agreed between the People Centre and Service Areas, and adherence to this timetable is monitored, with follow-up action taken where necessary; • Management should formally remind staff of the need for all checks to be satisfactorily completed prior to the final letter of appointment being sent to the successful candidate. <p>In addition, management should review each checklist prior to the final letter of appointment being sent out, to confirm the completion of all applicable checks.</p> <p>Where exceptions have been identified, management should take action to ensure that the required checks are satisfactorily completed retrospectively; and</p> <p>Five priority 2 recommendations were raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>		
Joint Commissioning	<p>Final Report</p> <p>Two priority 1 recommendations were raised as a result of this audit. These were as follows:</p> <ul style="list-style-type: none"> • Management should formally review all existing and future service contracts to ensure compliance with Brent Council Procurement and Management (BCPM) Guidelines. <p>With regards to all future contracts, it should be ensured that the requirements of the BCPM are fully complied with. In any instance where management deem that this is not possible, they should</p>	Limited	

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>liaise with Corporate Procurement to determine an appropriate course of action. If it is agreed that strict compliance is not possible then a request for a formal waiver should be made the Council's Executive prior to any further action taking place.</p> <p>If any cases of non compliance are highlighted regarding existing contracts, management should liaise with Corporate Procurement to determine the appropriate course of action.</p> <p>All stages of this process should be documented and retained.</p> <ul style="list-style-type: none"> • Management should formally remind staff of the need to document and retain all elements of the commissioning cycle for each contract. <p>To assist with this, management should consider introducing a checklist outlining all documentation required to be held for each service commissioned. Management review should then take place against this checklist to confirm that the requirements are being adhered to.</p> <p>One priority 2 recommendation was raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>		
Complaints	<p>Final Report</p> <p>Four priority 1 recommendations were raised as a result of this audit. These were as follows:</p> <ul style="list-style-type: none"> • All Service Areas implement service-specific complaints and handling procedures based on the overarching corporate policies and procedures, and that the procedures specifically address complaints relating to service areas. The procedures should also include guidance on making compensation payments. <p>With regards to guidance on making compensation payments, Service Areas may wish to wait until the Corporate Guidance on</p>	Limited	

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>Remedies and Compensation Payments is reviewed in line with the new Local Government Ombudsman's Remedies Guidance on Good Practice.</p> <p>In addition, it is recommended that all relevant policies and procedures regarding complaints should be formally reviewed on at least an annual basis;</p> <ul style="list-style-type: none"> • Management should liaise with Tagish in order to agree a support contract for iCasework as a matter of priority. <p>It is also recommended that senior management meet with Tagish as soon as possible to reconcile any differences of opinion in the development of the software, and to use that meeting to agree a definitive date for its satisfactory implementation;</p> <ul style="list-style-type: none"> • Management should consider putting in place a review system for stage 1 complaint responses, including monitoring of compensation payments. <p>If it is not deemed practical to review all responses prior to these being sent out, consideration should be given to undertaking checks on a sample basis. This may be considered as an area of responsibility for the Service Area Complaint Managers.</p> <p>As part of such a review, management should take account of points raised in the stage 3 reviews undertaken by the Corporate Complaints Team, checking to ensure that feedback from those reviews is being addressed. In all cases, records of the review / checking process should be maintained and these should be analysed periodically to determine whether there are any common areas of weakness which require addressing, for example through additional training or guidance. This should be fed back to the Corporate Complaints Forum as a standing agenda item; and</p> <ul style="list-style-type: none"> • Management should consider how best to monitor timeliness of acknowledgment at all stages. 		

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>Where systems do not generate suitable monitoring information, management should consider undertaking spot checks as a detective control.</p> <p>If delays are identified, as was the case from our sample testing, management should determine an appropriate course of action to address this, for example through the provision of additional training to staff or formal reminders on the importance of meeting the target.</p> <p>Seven priority 2 recommendations were raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>		

Audit	Status as at 11 September 2009	Assurance Opinion	
Veolia Contract Management / Recycling	<p>Final Report</p> <p>One priority 1 recommendation was raised as a result of this audit. This was as follows:</p> <ul style="list-style-type: none"> • Management should investigate the possibility of monitoring overdue rectification orders and all rectification orders on the Contender system for completion, timeliness, rectification points and Ward Officer quality check. <p>If it is not possible for this to be done via Contender, then management should determine an alternative method for doing so.</p> <p>In addition management should consider the benefit of including additional works to the performance monitoring framework to ensure prompt completion to a satisfactory standards.</p> <p>Three priority 2 recommendations were raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>	Substantial	
Framework Financial Module Post Implementation (IT)	<p>Final Report</p> <p>No priority 1 recommendations were raised as a result of this audit. However, six priority 2 recommendations and one priority 3 recommendation were raised where changes can be made in order to achieve greater control.</p> <p>All recommendations were accepted for implementation by management.</p>	Substantial	
Oracle I-Procurement Sanity Check	<p>A Management decision was made to improve the Council's procurement processes by installing the Advanced E-Procurement system, which includes the Internet Procurement module of the standard Oracle e-Business Suite. A project to implement this system was set up, with piloting being undertaken with Children & Families prior to a phased roll-out to the other Service Areas for whom Oracle</p>	N/A	

Audit	Status as at 11 September 2009	Assurance Opinion	
	<p>is already in place.</p> <p>While the purpose of this audit was to provide Management with an initial view on the adequacy of the controls designed and built into the Internet Procurement (I-Procurement) module, it did not include an evaluation of the effectiveness of these controls. The approach was to review the design and specification documentation to identify the key controls being built into the system, the key risks relating to the objectives of Internet Procurement and to assess the adequacy of the controls.</p> <p>An assurance opinion was not appropriate for this piece of work. However, further work may be undertaken as part of future audits of the Oracle application, at which point an assurance opinion will be awarded.</p>		

Audits currently at draft report stage or in progress

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

Audit	Status as at 11 September 2009
Supporting People Programme Grant	Awaiting Management Responses to the Draft Report.
Treasury Management	Awaiting Management Responses to the Draft Report.
Children's Centres Financial Management	Awaiting Management Responses to the Draft Report.
Registration & Nationality Service	Awaiting Management Responses to the Draft Report.
John Kelly Boys School	Awaiting Management Responses to the Draft Report.
John Kelly Girls School	Awaiting Management Responses to Draft Report
Section 106	Awaiting Management Responses to the Draft Report.
Private Sector Procurement Team	Awaiting Management Responses to the Draft Report.
Sundry Debt Recovery Team	Awaiting Management Responses to the Draft Report.
Windows Operating System (IT)	Awaiting Management Responses to the Draft Report.
Pensions Application Audit (IT)	Awaiting Management Responses to the Draft Report.
Treasury Management (BHP)	Awaiting Management Responses to the Draft Report.
Cleaning & Grounds Maintenance Contract Management (BHP)	Awaiting Management Responses to the Draft Report.
Watling Gardens TMO (BHP)	Awaiting Management Responses to the Draft Report.
DomDoc EDM System (BHP) (IT)	Awaiting Management Responses to the Draft Report.
Accuserv Application (BHP) (IT)	Awaiting Management Responses to the Draft Report.
Insurance	In progress.

Audit	Status as at 11 September 2009
Corporate Health & Safety	In progress.
Quality Assurance Systems – Safeguarding	In progress.
Traffic Management Act – Part 3	In progress.
Transportation	In progress.
Government Procurement Cards	In progress.
Stonebridge Estate – Hyde Contract Management	In progress.
Houses in Multiple Occupation	In progress.
LAA Stretch Targets 2006-2009 Certification (14 Stretch Targets to certify)	In progress.
Non Stop Gov (IT)	In progress.
Business Continuity Planning (BHP)	In progress.
Repairs and Voids (BHP)	In progress.
South Kilburn TMO (BHP)	In Progress

FMSIS Assessments

The table below lists those primary schools for which an FMSIS assessment has been undertaken during the 2009/10 financial year to date, as well as those that are still to be finalised from 2008/09. As explained in the Executive Summary, those that have not yet been finalised from 2008/09 have been given a final extension during which Education Finance have agreed to work with them to address the issues regarding their understanding of the new budget monitoring pro-forma.

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

School	Assessment Outcome	Status as at 11 September 2009
2008/09 Assessments		
Mitchell Brook Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
Barham Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
Princess Frederica C.E Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
Park Lane Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
Salisbury Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
John Keble C.E Primary School	Conditional Pass	Extension to 30 September 2009 regarding budget monitoring.
2009/10 Assessments		
Carlton Vale Infant School	Pass	Complete.
Wykeham Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Islamia Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass

School	Assessment Outcome	Status as at 11 September 2009
		assessment.
Kensal Rise Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Grove Park School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Wembley Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
St Joseph's R.C Infant School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
St Joseph's R.C Junior School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
St Mary's RC Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Mora Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
The Stonebridge Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Lyon Park Junior School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.

School	Assessment Outcome	Status as at 11 September 2009
Newfield Primary School	Conditional Pass	School currently within their 20 working day period for addressing the gaps identified as part of the Conditional Pass assessment.
Northwest London Jewish Day Primary School	Fail	School has been given 12 months within which to implement recommendations in order for a re-assessment to be undertaken.

Follow-Up of Recommendations

The table below provides a summary of the findings from the follow-up work undertaken for the year to date, for which a final report has been issued. As explained in the Executive Summary, limited follow-up work has been undertaken in the year to date given that the approach is being revised. The purpose of this work is to determine the extent to which recommendations raised and agreed with management have now been implemented. For each audit a report has been issued setting out the findings. 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. In all cases these further actions have been agreed, together with responsible officers and new deadlines for completion. These 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.

Please note that we have not included any BHP follow-up work within this table as that is reported on separately to the BHP Audit & Finance Sub-Committee.

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	
Section 52(9) Waste Charges	-	-	3	-	-	1	1	-	-	1	-	4	-	<ul style="list-style-type: none"> Review of current methodology for compiling the monthly High Level Monitoring figures; Determination of a process for verifying and validating the monthly figures and quarterly invoices received from West London Waste Authority; and Follow-up of any variances identified from the verification and validation process.
	-	-	3	-	-	1	1	-	-	1	-	4	-	





Customer Satisfaction



We set out below a breakdown of the feedback received through the Customer Satisfaction Questionnaires, as completed by auditees for work undertaken to date by Deloitte against the 2009/10 Internal Audit Plan.

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

Audit	Sufficient notice was provided prior to the start of the audit	Communication of audit objectives, purpose and scope	Effectiveness and professionalism of the auditor(s)	Auditor(s) understanding of the service you provide	Quality of exit meeting and discussion of report findings	Quality, accuracy and usefulness of the report	Overall opinion of the audit
Veolia Contract Management / Recycling	4	4	4	3	4	4	4
Complaints	4	5	3	3	4	4	4
Home Care Contract Management	5	4	4	4	3	3	3

Appendix A – Audit Team and Contact Details

London Borough of Brent	Contact Details
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Appendix B – Progress Against 2009/10 Internal Audit Plan

The table below sets out the detailed progress made against the agreed 2009/10 Internal Audit Plan, together with an indication of any instances where an audit has been removed from the Plan, any where an audit has been added, and also any for which the planned timing has had to be amended.

Shaded cells indicate that the audits were not due for commencement within the reporting period.

Table 1 – Overall Plan

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
CROSS COUNCIL AUDITS (70 Days) (reduced to 60 days)					
Corporate Health & Safety	10	To focus on the controls in place with regards to managing health and safety across the Council. It is proposed that the specific scope of the audit should be aligned to the 10 point Health & Safety Service Plan produced for 2008/09, as this was formulated on the basis of the Health & Safety Commission (HSC) / industry guidance 'Health & Safety Leadership Checklist'. Consideration will also be given to the extent to which the new Health & Safety (Offences) Bill and the recently enacted Corporate Manslaughter & Corporate Homicide Act 2007 have been embedded into the Council's arrangements.	Geoff Galilee – Service Unit Director, Health, Safety & Licensing	Qtr 1	In progress – Draft Report to be issued by the end of September 2009.
Registers of Interest / Gifts & Hospitality	10 (reduced to 0)	To focus on the controls in place across the Council for ensuring that officers declare any interests / gifts & hospitality; that gifts & hospitality are only accepted in line with Council policy; and that appropriate follow-up actions are taken by	To be determined	Qtr 1	Audit removed from the Plan due to the new Policy not yet having been implemented – to be included in the 2010/11

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		management to ensure that any officers declaring interests / gifts & hospitality are operating in an appropriate manner.			Plan.
Use of Consultants	10	To focus on the controls in place around the identification of need for consultants to be engaged; the hiring of appropriately skilled and experienced consultants; the achievement of value for money in the hiring of consultants; and the monitoring of performance and time input for those consultants engaged.	To be determined	Qtr 2	Not yet started – specific scope still to be determined.
Project Management – feeding into One Council Review (part Contract Audit)	10	To feed into the Once Council review being led by the Assistant Director of Regeneration on the management of Major Regeneration Programmes and Major Projects. Specific scope and approach still to be discussed with the Assistant Director of Regeneration. Work to be combined with IT Project Management, as included within the IT Plan.	Andy Donald – Assistant Director of Regeneration	To be determined	Senior Manager and Contract Audit Manager attended an initial workshop in June 2009. Awaiting indication from Assistant Director of Regeneration on when further input is appropriate.
Local Public Service Agreement (LPSA) – Efficiency Target	10	Completion of necessary checks in order to certify that the stretch efficiency target has been met, thereby enabling the Council to claim the associated Performance Reward Grant.	Duncan McCleod – Director of Finance	Qtr 2	Audited as part of LAA Stretch Targets Certification in Qtr 2.
Annual Governance Statement	20	Production of the Annual Governance Statement through the co-ordination of the completion of the Certificates of Assurance by Directors and the annual	Simon Lane – Head of Audit & Investigations / Directors	Qtr 4	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		review of the Council's Corporate Governance Action Plan.			
FINANCE & CORPORATE RESOURCES (108 Days)					
Council Tax	15	Annual systems audit focussing on key controls and any systems changes.	Paula Buckley – Head of Client Team – Revenue & Benefits	Qtr 3	
Housing & Council Tax Benefits	15	Annual systems audit focussing on key controls and any systems changes.	David Oates – Head of Benefits – Revenue & Benefits	Qtr 3	
NNDR	15	Annual systems audit focussing on key controls and any systems changes.	Paula Buckley – Head of Client Team – Revenue & Benefits	Qtr 3	
Treasury Management	10	Annual systems audit focussing on key controls and any systems changes.	Martin Spriggs – Head of Exchequer & Investment	Qtr 1	Draft Report issued – awaiting management responses.
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within the Service Areas and the extent to which the Council's Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Mark Peart – Head of Financial Management	Qtr 4	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Sundry Debt Recovery Team	8	To focus on the systems of control being designed and implemented by the new Sundry Debt Recovery Team to take responsibility for debt recovery across the Council.	Sarah Cardno – Exchequer Services Manager	Qtr 2	Draft Report issued – awaiting management responses.
Insurance	10	To focus on the controls in place around the Council's insurance function. Specific areas of focus are likely to include identification of required insurance coverage; raising of claims; monitoring progress and receipt of claims; processing of claims made against the Council; monitoring of claims received against the Council; and action taken to minimise the receipt of claims.	Alison Matheson – Head of Procurement Strategy & Risk Management	Qtr 1	Draft Report in Progress
Procurement - feeding into One Council Review (part Contract Audit)	10	To feed into the Once Council review being led by the Head of Procurement Strategy & Risk Management and the Borough Solicitor on Procurement and Contract Management. Specific scope and approach still to be discussed with the Head of Procurement Strategy & Risk Management and the Borough Solicitor.	Alison Matheson – Head of Procurement Strategy & Risk Management	To be determined	Awaiting indication from Head of Procurement Strategy & Risk Management as to when input is appropriate.
Procurement - post One Council Review (part Contract Audit)	10	To focus on the controls put in place as part of the One Council review and the extent to which these are being effectively operated.	Alison Matheson – Head of Procurement Strategy & Risk Management	Qtr 4	
CHILDREN & FAMILIES (220 Days) (increased to 248 days)					

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
FMSIS Assessments	110	Completion of assessments for the 25 remaining primary schools.	Bharat Jashapara – Head of Finance – Children & Families	Across the year	In progress – see breakdown in Executive Summary.
Schools Thematic Work	10	To focus on a specific theme and visit a sample of schools to either assess compliance with the requirements of the Financial Regulations for Schools, or to assess the adequacy and effectiveness of controls in respect of fraud and non-fraud risks in that area. Thematic work being undertaken in 2008/09 is focussing on Procurement and compliance with the Financial Regulations for Schools.	Bharat Jashapara – Head of Finance	Qtr 3	
Fostering & Adoption	10 (reduced to 0)	To focus on the controls in place around the assessment and approval of persons applying to be carers.	Graham Genoni – Assistant Director of Social Care	Qtr 1	Audit removed from the Plan as OFSTED inspection in this area – days being put towards addition of Foundation Schools.
SEN Statementing	10	To feed into the Improvement & Efficiency review being undertaken in this area. Specific scope and approach still to be discussed with the Assistant Director of Achievement & Inclusion.	Rik Boxer – Assistant Director of Achievement & Inclusion	To be determined	Most appropriate timing still to be determined with the Assistant Director of Achievement & Inclusion and the BEST Team.
Child Protection	15	To feed into the Improvement & Efficiency review being undertaken in this area. Specific scope and approach still to be discussed with the Assistant Director of	Graham Genoni – Assistant Director of Social Care	To be determined	Most appropriate timing still to be determined with the Assistant Director of Social Care and the BEST Team.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		Social Care.			
Joint Commissioning	10	To focus on the controls in place around the operations of the Joint Commissioning Team. Specific areas of focus are likely to include the achievement of value for money; compliance with the Council's Financial Regulations; management of partnership risk; and contract management.	Krutika Pau – Assistant Director of Strategy & Partnerships	Qtr 1	Final Report issued.
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within the Service Areas and the extent to which the Council's Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Bharat Jashapara – Head of Finance – Children & Families	Qtr 4	
Wembley Park Academy Project (Contract Audit)	12	To focus on controls in place around the ongoing management of the Wembley Park Academy project. Contract audit work has been undertaken in 2008/09 focusing on initial stages of the project, including controls around tendering and governance structures.	Mustafa Salih – Assistant Director of Finance & Performance	To be determined	Most appropriate timing still to be determined with the Director of Finance & Performance.
Early Years	10 (reduced to 0)	To focus on the controls in place around the co-ordination of the service and the award of grant funding to nurseries.	Krutika Pau – Assistant Director of Strategy & Partnerships	Qtr 2	Audit removed from the Plan as work on Children's Centres has partly covered this – days being put towards addition of Foundation Schools.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Children's Centre Establishment Visit	10	To focus on the controls in place around the management and administration of a chosen Children's Centre. Specific areas of focus are likely to include governance; staffing; procurement; income; management of assets; and budgetary control. Specific Children's Centre to be agreed with the Assistant Director of Strategy & Partnerships and the Head of Finance.	Krutika Pau – Assistant Director of Strategy & Partnerships	Qtr 1	Draft Report issued – awaiting management responses.
Other Establishment Visit	8	To focus on the controls in place around the management and administration of a chosen establishment (not a school or Children's Centre). Specific areas of focus are likely to include governance; staffing; procurement; income; management of assets; and budgetary control. Specific establishment to be agreed with the Assistant Director of Achievement & Inclusion and the Head of Finance.	Rik Boxer – Assistant Director of Achievement & Inclusion	Qtr 2	Deferred to Qtr 3.
Foundation Schools (Audit + FMSiS Re-Assessment)	48 <i>(added to the Plan)</i>	Audits of four Foundation Schools plus FMSiS re-assessment in line with the DCSF's three year cycle. The remaining Foundation Schools will be audited and re-assessed as part of the 2010/11 Internal Audit Plan.	Bharat Jashapara – Head of Finance – Children & Families	Qtr 4	
ENVIRONMENT & CULTURE (107 Days) (reduced to 104 days)					

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Sports Service	12	<p>To focus on the systems of control in place within the internally managed Bridge Park and Charteris Centres. Specific areas of focus are likely to include the receipt of income at the Centres; recruitment and training of appropriate staff; maintenance and health & safety management; and performance management.</p> <p>This work will build on the internal audit undertaken in 2008/09 around the management of the contracts for the externally managed Willesden and Vale Farm Centres.</p>	Sue Harper – Assistant Director, Leisure & Regeneration	Qtr 2	Deferred to Qtr 3 due to staff availability issues and other urgent projects.
Transportation	15	<p>To focus on the controls implemented within Transportation following restructuring and internal review work undertaken in 2008/09.</p> <p>Specific scope and approach still to be discussed with the Assistant Director, Streets & Transportation.</p>	Irfan Malik – Assistant Director, Streets & Transportation	Qtr 2	In Progress
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within the Service Areas and the extent to which the Council's Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Ken Patterson – Head of Finance	Qtr 4	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Traffic Management Act – Part 3	10 <i>(increased to 12)</i>	To focus on the controls in place to ensure the Council's compliance with the Traffic Management Act 2004. Specific areas of focus are likely to include network management and enforcement policies; issuing of permits and collection of fees; inspections; fixed penalty notices; and performance monitoring. <i>Additional two days added due to the audit looking at both the existing controls around 'notifications' and the Council's preparedness for the implementation of the new London Operational Permit Scheme (LoPS).</i>	Irfan Malik – Assistant Director, Streets & Transportation	Qtr 2	In Progress.
Section 106	10	To focus on the controls in place around the Identification and agreement of S106 monies; receipt of monies; and identification of the use of funds.	Michael Read – Assistant Director, Policy & Regulation	Qtr 2	Draft Report issued – awaiting management responses.
Recycling	10 <i>(reduced to 0)</i>	To focus on the controls in place around the Council's recycling service, including the enforcement of the compulsory green box recycling scheme and administration of the other methods of recycling available to residents.	Keith Balmer – Director of StreetCare	Qtr 1	Audit combined with Veolia Contract Management – five days added to budget for Veolia Contract Management and five added to contingency
Libraries	15	To focus on the systems of control in place following the recent restructuring of the Library Service, including the controls in place to ensure compliance across individual libraries.	Sue Harper – Assistant Director, Leisure & Regeneration	Qtr 4	Postponed to Quarter 4 due to restructuring of service.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Veolia Contract Management (Contract Audit)	10 (increased to 15)	To focus on the controls in place around the management of the waste management contract with Veolia.	Keith Balmer – Director of StreetCare	Qtr 1	Final Report issued.
Environmental Health	10	To feed into the Improvement & Efficiency review being undertaken in this area. Specific scope and approach still to be discussed with the Assistant Director, Policy & Regulation.	Michael Read – Assistant Director, Policy & Regulation	To be determined	Audit likely to be removed from the Plan as scale of changes being made is believed to be relatively small. To be confirmed with the Assistant Director, Policy & Regulation.
HOUSING (55 Days)					
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within the Service Areas and the extent to which the Council's Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Eamonn McCarroll – Head of Finance	Qtr 4	
HMO (Houses in Multiple Occupation) Licensing	10	To focus on the controls in place around the processing of applications for HMO licenses; confirming compliance with qualifying requirements; the receipt of income for licenses; and ongoing monitoring / enforcement.	Perry Singh – Assistant Director, Housing Needs / Private Sector	Qtr 1	Audit postponed to Qtr 2 to allow for certification of Supporting People Programme Grant. Audit now in progress.
Supporting People Programme Grant	10 (added to the Plan)	Certification of Supporting People Programme Grant-	Liz Zacharias	-	Audit added to the Plan and replaced with HMO audit scheduled for Qtr 1 deferred to Qtr 2.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
					Draft Report issued – awaiting management responses.
Private Sector Procurement Team	10	To focus on the controls in place around the procurement of private sector properties by the recently integrated Private Sector Procurement Team.	Perry Singh – Assistant Director, Housing Needs / Private Sector	Qtr 2	Draft Report issued – awaiting management responses.
Performance Indicators	10 (reduced to 0)	To focus on the controls in place around the collection, collation, verification and reporting of data relating to key Housing performance indicators.	Tony Hirsch – Head of Policy & Performance	Qtr 1	Replaced by audit of Supporting People Programme Grant not previously included on Plan.
Stonebridge Estate – Hyde Contract Management	10	To focus on the controls in place around the management of the Stonebridge Estate contract with Hyde Group.	Maggie Rafalowicz – Assistant Director, Housing Strategy & Regeneration	Qtr 3	In Progress.
COMMUNITY CARE (111 Days)					
Transformation – Assessment & Care Management	20	To focus on the adequacy of controls implemented or being implemented in relation to the new assessment and care management framework being developed as part of the Adult Social Care Transformation Programme. Potentially to also conduct testing around the effectiveness of controls where implemented.	Christabel Shawcross – Assistant Director, Community Care	Qtr 4	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Transformation – Self Directed Support	10	To focus on the progress made in the development and implementation of systems of control in respect of Self Directed Support. Internal audit work has been undertaken as part of the 2008/09 Plan, but has been more focussed on assessing the adequacy of any controls currently being planned for implementation as well as facilitating further discussion on specific issues to be considered during the development stages.	Lance Douglas – Assistant Director, Quality & Support	Qtr 2	Most appropriate timing and scope still to be determined with the Assistant Director, Quality & Support.
Grants to Voluntary Organisations	10	To focus on the controls being implemented as part of the restructure of this area, in terms of the way in which the Main Programme Grant is allocated and administered, and the way in which the team responsible for this operates. The implementation of further actions identified as being necessary from the 2008/09 follow-up of the 2007/08 internal audit in this area will also be focussed upon in this audit.	Linda Martin – Head of Service Development & Commissioning	Qtr 3	
Internal Financial Controls	15	Annual audit focussing on key financial controls operating within the Service Areas and the extent to which the Council's Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Gordon Fryer – Assistant Director, Finance & Resources	Qtr 4	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Appointeeships & Deputyships	10	To focus on the controls in place around the management of funds for vulnerable clients. This area was previously audited at the end of 2006/07 but has not yet been followed up due to the implementation of the finance module within Frameworki and the migration of financial data to that system. That migration is now nearing completion after which this audit will take place.	Gordon Fryer – Assistant Director, Finance & Resources	Qtr 1	Work was requested to be postponed due to delays with full migration to Frameworki Financials. Most appropriate timing still to be agreed, but likely to be Qtr3 or 4.
Mental Health Integration with Central & North West London Mental Health Trust	10	To focus on the controls being planned and implemented as part of the integration of the Mental Health Service and Central & North West London Mental Health Trust.	Christabel Shawcross – Assistant Director, Community Care	To be determined	
Blue Badges	8	To focus on the controls in place over the processing of applications for a Blue Badge, including verifying entitlement and avoiding duplicate awards.	Christabel Shawcross – Assistant Director, Community Care	Qtr 2	Specific timing still to be agreed as new Team Manager. Likely to be early Qtr 3.
Quality Assurance Systems - Safeguarding	10	To focus on the controls being designed and implemented as part of a new quality assurance system to address the action plan resulting from the recent CSCI (Commission for Social Care Inspection) inspection. The focus will be on the adequacy of these controls as opposed to on their effectiveness at this stage.	Christabel Shawcross – Assistant Director, Community Care	Qtr 1	In Progress

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Home Care Contract Management (Contract Audit)	10	To focus on the controls in place around the management of the Home Care contract.	Linda Martin – Head of Service Development & Commissioning	Qtr 1	Final Report issued.
Establishment visit	8	To focus on the controls in place around the management and administration of a chosen establishment. Specific areas of focus are likely to include staffing; procurement; income and cash handling; management of assets; and budgetary control. Specific establishment to be agreed with the Assistant Director, Community Care.	Christabel Shawcross – Assistant Director, Community Care	Qtr 2	Focus of this work has been amended. Rather than visiting one establishment, a report is being written to summarise the common weaknesses that have been identified across the establishments in recent audits. A workshop will then be organised with key officers to discuss this, so as to help ensure a shared understanding and to try and address the weaknesses in a consistent manner across all establishments.
POLICY & REGENERATION (45 Days)					
Performance Management/LAA Stretch Targets Certification	15	Specific use of these days is still to be discussed with the Assistant Director, Policy. Work undertaken in 2008/09 has focused on the controls in place around the collection, collation, verification and reporting of data in relation to a number of	Cathy Tyson – Assistant Director, Policy	Qtr 2 & 3	14 Stretch Targets to be certified. Work in progress. Days have been put towards the work required in relation to the Local Area Agreement Stretch Targets.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		performance indicators, including the Local Area Agreement (LAA) Stretch Targets.			
Complaints	10	To focus on the controls in place for ensuring that all received complaints are dealt with in an appropriate and timely manner, in accordance with the Council's Complaints Policy, and the extent to which controls are in place for seeking to minimise future complaints.	Susan Riddle – Corporate Complaints Manager	Qtr 1	Final Report issued.
Regeneration	20	Specific use of these days is still to be discussed with the Assistant Director of Regeneration	Andy Donald – Assistant Director of Regeneration	To be determined	Initial discussions were held with the Assistant Director of Regeneration to discuss potential coverage. Specific work still needs to be agreed, or the days will be re-allocated to alternative audits.
COMMUNICATION & DIVERSITY (10 Days) (reduced to 0 days)					
Equalities	10 (reduced to 0)	<p>To focus on the controls in place in respect of managing equality related issues across the Council, and preparedness for the changes being introduced around the Standard.</p> <p>Currently the Corporate Diversity Team are focusing on the Council achieving Level 4 against the Standard, having already achieved Level 3.</p> <p>Further discussions will be held with the Head of Diversity regarding the exact focus of this audit so as to avoid any</p>	Jennifer Crook – Head of Diversity	Qtr 3	Audit removed from the Plan in agreement with the Head of Diversity due to coverage from the external assessments.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		duplication with the external assessment against the Standard.			
BOROUGH SOLICITOR (12 Days)					
Registration and Nationality Service	12	To focus on the controls in place around processing requests for checking British Citizenship applications; registering births and deaths; taking notices of intent to marry or join in civil partnership; and the receipt of income for each of the above.	Mark Rimmer – Service Unit Director – Registration & Nationality Service	Qtr 1	Draft Report issued – awaiting management responses.
BUSINESS TRANSFORMATION (206 Days)					
IT	146	See separate plan – Table 2	-	-	See Table 2.
Payroll	15	Annual systems audit focussing on key controls and any systems changes.	Simon Britton – Head of The People Centre	Qtr 3	Not originally due until Qtr 3. However, Head of Payroll has requested a deferral to late Qtr 3 or Qtr 4 due to resources being focused on implementation of the sickness absence module in October 2009.
Government Procurement Cards	10	To focus on the controls in place around Government Procurement Cards (GPC). Specific areas of focus are likely to include the provision of GPCs; review of card holder's expenditure; and monitoring of	Simon Britton – Head of The People Centre	Qtr 2	In Progress

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		overall spending patterns.			
Recruitment (existing arrangements)	10	To focus on the controls in place around recruitment. Specific areas of focus are likely to include approval of new posts; advertising of vacancies; assessment of candidates; and approval of job awards.	Simon Britton – Head of The People Centre	Qtr 1	Final Report issued
Employee Verification	10	To focus on the controls implemented around the new arrangements for directly awarding work permits to job applicants to the Council and the schools (the Council is now licensed to award these under the Government's new points based scheme). Also to focus on compliance with the Council's newly updated CRB policy.	Simon Britton – Head of The People Centre	Qtr 3	
Civic Centre Project (part Contract Audit)	15	To focus on the controls in place over the management of the project as a whole, as well as potential focus on the specific construction elements of the project from a contract audit perspective and / or the management of other sub-elements of the overall project. Specific scope and approach still to be discussed with the Assistant Director, Business Transformation.	Aktar Choudhary – Assistant Director, Business Transformation	To be determined	Contract Audit Manager has met with Assistant Director, Business Transformation to discuss potential coverage. Most appropriate timing still to be determined.
OTHER					
Brent Housing Partnership (BHP)	128	See separate plan – Table 3	-	-	See Table 3.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Consultation, Communication and Reporting (Deloitte)	85	To cover attendance by Deloitte management at meetings across the Council, for example Strategic Finance Group, Schools Causing Financial Concern, and Audit & Investigations Management meetings. Also to cover Deloitte management attendance at Audit Committee meetings and the production of progress reports for these. In addition, to cover Deloitte managements' non-audit specific liaison and communication with officers across the Council on a day-to-day basis and with the Council's external auditors, the Audit Commission. For example, ongoing liaison with Directors and Assistant Directors regarding any necessary revisions to the Plan and communication of key issues arising from completed internal audit work, and liaison with the Audit Commission regarding their review of completed internal audit work.	N/A	Throughout the year	In progress.
Follow-Up	40	Completion of follow-up work on all recommendations raised and agreed as part of the 2008/09 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.	N/A – dependent upon each internal audit to be followed-up	Throughout the year	In progress.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	ORIGINAL PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Contingency	9 (<i>reduced from 14</i>)	<p>To be allocated to any new developments or new / emerging risk areas during the course of the year.</p> <p>The number of days assigned to contingency is relatively low given the overall size of the Plan. However, based on previous years, this is likely to grow during the course of the year due to audits needing to be postponed due to delays in projects / new developments being fully implemented. In the event that additional work is required for which insufficient contingency days are available, a decision will be made on whether other lower risk audits can be deferred until 2010/11.</p>	N/A – dependent upon work required	N/A – dependent upon work required	<p>The contingency balance has fallen as a result of the various movements indicated in the Plan, with the additions exceeding the reductions by five days.</p> <p>The low contingency balance is not a concern in terms of being able to respond to any requests that may arise for additional work during the remaining months, given that a number of audits have been indicated above as potentially dropping out of the Plan.</p>
TOTAL	1211				

Table 2 – IT Plan

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Oracle Application Audit	10	To focus on the new version of Oracle to be used by Housing & Community Care and Children & Families from April 2009. Specific areas of focus are likely to include access controls; data input controls; data processing controls; data output controls; data interfaces; management trails; backup and recovery; and maintenance and support arrangements. The audit will also take account of previous findings from the Application Audit done with Housing & Community Care in 2007/08, as followed-up in 2008/09.	Mark Peart – Head of Financial Management	Qtr 1	Deferral requested by Head of Financial Management due to focus on year-end closing of accounts and progressing Oracle roll-out. Most appropriate timing still to be agreed, but likely to be late Qtr 3 or Qtr 4.
Oracle I-Procurement Pre-Implementation ('Sanity Check')	7	New I-Procurement module due to be piloted in Children & Families in May / June 2009. To undertake a 'sanity check' on the adequacy of the IT controls built into this module prior to full roll out by management.	Mark Peart – Head of Financial Management	Qtr 1	Final Report issued.
Oracle Pre-Implementation (Environment & Culture and Finance & Corporate Resources)	10	Environment & Culture and Finance & Corporate Resources due to go live on Oracle from 1 April 2010. Pre-Implementation Audit to cover these two Service Areas, but scope to be tailored to focus on key areas. Some areas of scope to be considered for exclusion where they have been previously covered in the Children & Families Pre-Implementation Audit, although any previously raised recommendations to be followed-up where further actions have been identified as necessary from our 2008/09 work.	Mark Peart – Head of Financial Management	Qtr 3	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Government Gateway Post Implementation	10	Postponed from 2008/09 due to delay in implementation. Post Implementation audit focusing on the controls in place around user requirements; maintenance and support arrangements; security; interfaces; and the assessment of the benefits realised by the project.	Raj Seedher – IT Standards Manager	Qtr 2	Deferred due to ongoing delays with implementation. Most appropriate timing still to be determined.
Framework Financials Post Implementation	10	Post Implementation audit focusing on the controls in place around user requirements; maintenance and support arrangements; security; interfaces; and the assessment of the benefits realised by the project.	Gordon Fryer – Assistant Director, Finance, Adult Social Care	Qtr 2	Final Report – issued.
Contact Point	10	Council are required to provide assurances prior to being given access to the national Contact Point database. To focus on the controls in place to ensure that those assurances can be given, and to potentially feed into the provision of the required assurances.	Bhavna Bilimoria – Special Project Manager, Children & Families	To be determined	Most appropriate timing still to be determined as delays with implementation nationally. Seeking to undertake a cross borough audit as part of the West London Framework
AXIS Post Implementation (cash receipting system - previously Spectrum)	10	First part of the new system covering telephone and online payments is due to go live in March 2009. Full implementation due September 2009. Post Implementation audit focusing on the controls in place around user requirements; maintenance and support arrangements; security; interfaces; and the assessment of the benefits realised by the project.	Sarah Cardno – Exchequer Services Manager	Qtr 3	

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
LAGAN Post Implementation (new CRM system)	10	Post Implementation audit focusing on the controls in place around user requirements; maintenance and support arrangements; security; interfaces; and the assessment of the benefits realised by the project.	Tom Lloyd – ITU Operations Manager	To be determined	Most appropriate timing still to be agreed with ITU Operations Manager.
Windows Operating System	8	To focus on the controls in place around areas including system wide security; user access; remote access; network sharing; updates and patches; backup and recovery; and maintenance and support arrangements.	Tom Lloyd – ITU Operations Manager	Qtr 1	Draft Report issued – awaiting management responses.
Business Continuity Planning (IT elements of corporate arrangements)	10	To focus on the IT elements of the corporate BCP arrangements. General internal audit work has been undertaken in relation to the development of BCP across the Council as part of both the 2007/08 and 2008/09 Plans, but coverage has not extended to IT. Recent IT audits have also identified further improvements as being necessary in respect of disaster recovery.	Tom Lloyd – ITU Operations Manager	Qtr 4	
Non-Stop Gov	7	To focus on the support arrangements as concerns raised regarding these by the ITU Operations Manager.	Judith Young – Head of Policy, Information & Performance, Environment & Culture	Qtr 2	In progress.
IT Project Management	10	To feed into the Once Council review being led by the Assistant Director of Regeneration on the management of Major Regeneration Programmes and Major Projects.	Andy Donald – Assistant Director of Regeneration / Tom Lloyd – ITU	To be determined	See comments against Project Management in Table 1.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		Specific scope and approach still to be discussed with the Assistant Director of Regeneration and with the ITU Operations Manager. Work to be combined with the internal audit work on Project Management, as included within the main Plan.	Operations Manager		
Pensions Application Audit	10	To focus on the controls in place around the Pensions application operated by the London Pensions Fund Authority in respect of the Council's pensions administration function. Specific areas of focus are likely to include access controls; data input controls; data processing controls; data output controls; data interfaces; management trails; backup and recovery; and maintenance and support arrangements.	Andrew Gray – Pensions Manager	Qtr 1	Draft Report issued – awaiting management responses.
e-Recruitment Post Implementation	8	Post Implementation audit focusing on the controls in place around user requirements; maintenance and support arrangements; security; interfaces; and the assessment of the benefits realised by the project.	Simon Britton – Head of The People Centre	Qtr 3	
IT Follow-Ups	16	Completion of follow-up work on all recommendations raised and agreed as part of the 2008/09 IT Audit Plan, where the same audits are not being undertaken again as part of the 2009/10 IT 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 IT audits.	N/A – dependent upon each internal audit to be followed-up	Throughout the year	In progress.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
TOTAL	146				

Table 3 – BHP Plan

This Plan has been formulated separately with the Financial Controller and Financial Operations Manager at BHP. The Plan will be presented separately to BHP's Audit & Finance Sub-Committee for agreement, but is presented here for Members' reference.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Housing Repairs & Maintenance	12	Annual systems audit focussing on key controls and any systems changes.	Gerry Doherty – Director of Technical Services	Qtr 3	
Housing Rents	12	Annual systems audit focussing on key controls and any systems changes.	David Bishopp – Rent Accounting & Performance Manager	Qtr 3	
Repairs & Voids	10	To focus on the controls in place around repairs & voids, as implemented / revised following the implementation of the new Accuserve costing system. Specific areas of focus are likely to include identification of required works; costing of works; review of completed works; variations; and payments to operatives / sub-contractors. The timing of this audit will coincide with the IT audit of the Accuserve application. The intention being to provide assurances on both the IT and non-IT controls at the same time so as to assist management with making any further improvements where necessary.	Gerry Doherty – Director of Technical Services	Qtr 3 (brought forward to Qtr 2)	Draft Report issued – awaiting management responses.
Accuserve (Repairs & Voids) (IT Audit)	10	To focus on the Accuserve application. As above, the timing of this audit will coincide with the internal audit of the Repairs & Voids function as a whole. The intention being to provide assurances on both the IT	Gerry Doherty – Director of Technical Services	Qtr 3 (brought forward to Qtr 2)	Draft Report issued – awaiting management responses.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
		and non-IT controls at the same time so as to assist management with making any further improvements where necessary.			
Internal Financial Controls	10	Annual audit focussing on key financial controls operating within BHP and the extent to which the Financial Regulations are being complied with. Specific areas of focus include the raising of invoices; receipt of income; debt recovery and write-off; payments; BACs and cheque controls; journals; and reconciliations.	Greg Trenear – Financial Controller	Qtr 4	
Treasury Management	10	To focus on the controls in place around the treasury management function. Specific areas of focus are likely to include compliance with legislative requirements; recording of loans and investments; monitoring of cash flow; reconciliations; and reporting.	Greg Trenear – Financial Controller	Qtr 1	Draft Report issued – awaiting management responses.
Business Continuity Planning	10	To focus on the controls in place around the specific business continuity arrangements for BHP (with the exception of IT, BHP has separate arrangements to those of the Council). Specific areas of focus are likely to include the identification of key activities and staff; the identification and assessment of the likelihood and impact of potential threats; the formulation of a business continuity strategy and business continuity plan; awareness and training; maintaining and exercising the plan; and public relations and crisis co-ordination.	Mike Dwyer – Director of Standards & Procurement	Qtr 1	In Progress.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Cleaning and Grounds Maintenance Contract Management (Contract Audit)	10	To focus on the controls in place around the management of the cleaning and grounds maintenance contracts.	Mike Dwyer – Director of Standards & Procurement	Qtr 2	Draft Report issued – awaiting management responses.
Brentfield Estate Project (Contract Audit)	12 (reduced to 0)	To focus on the controls in place around the management of the Brentfield Estate Project. 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 – Director of Technical Services / Sue DeSouza – Special Projects	To be determined	Audit removed from the Plan as being undertaken as part of additional Contract Audit work agreed separately with the Director of Finance for BHP. Days transferred to work on Risk Management (see below)
Risk Management	12 (added to the Plan, as above)	Work is being undertaken to assist the Director of Finance with further developing the risk management framework.	Gary Chase – Director of Finance	Qtr 2 and ongoing	Draft Report issued.
Tenant Management Organisations	10	To focus on the controls in place around Tenant Management Organisations (TMOs). Specific areas of focus are likely to include governance; staffing; procurement; income; management of assets; and budgetary control. Specific TMO to be agreed with the Head of Governance & Communications.	Linda Footer – Head of Governance & Communications	Qtr 2	Work in Progress Watling Gardens TMO and South Kilburn TMO to be audited. Watling Gardens – Draft Report issued.

AUDIT	DAYS	PROPOSED COVERAGE	KEY CONTACT	PROPOSED TIMING	STATUS AS AT 11 SEPTEMBER
Dom Doc – EDM System (IT Audit)	10	Dom Doc is the Electronic Document Management system used by frontline staff across BHP. Specific areas of focus are likely to include access controls; data input controls; data processing controls; data output controls; data interfaces; management trails; backup and recovery; and maintenance and support arrangements.	Mike Dwyer – Director of Standards & Procurement	Qtr 1	Draft Report issued – awaiting management responses.
Consultation, Communication, Reporting and Follow-Up	12	To cover attendance by Internal Audit management at Audit Committee meetings and the production of progress reports for these. In addition, to cover managements' non-audit specific liaison and communication with officers during the course of the year, for example ongoing liaison regarding any necessary revisions to the Plan and communication of key issues arising from completed internal 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.	N/A	Throughout the year	In progress.
TOTAL	128				

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	<p style="text-align: center;">Audit Committee 24th September 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
<p style="text-align: center;">Treasury Management – Select Committee report on Local Authority investments in Icelandic banks</p>	

1. SUMMARY

- 1.1 This report looks at developments since the last meeting of the Audit Committee. In particular, the House of Commons Select Committee has reported on the lessons to be learnt from the collapse of Icelandic banks with which local authorities had deposits.

2. RECOMMENDATIONS

- 2.1 Members are asked to note and comment on the steps taken either previously or in response to the Select Committee report.

3 DETAIL

SELECT COMMITTEE REPORT

- 3.1 In June 2009, the House of Commons Select Committee issued its report on Local Authority Investments in Icelandic Banks, looking at the lessons to be learnt from the collapse. The main conclusions and recommendations were:-
- a) There should not be further restrictions on how local authorities invest their balances, but the primary considerations should be security and liquidity, followed by yield.
 - b) CIPFA should take steps to ensure that there are adequate levels of expertise and scrutiny within local authorities.
 - c) Authorities should share expertise.
 - d) There should be scrutiny through the Audit Committee of the local authority. Members of the Audit Committee should be properly trained and should consider the co-option of independent members with appropriate expertise.
 - e) There should be appropriate use of credit ratings, with local authorities seeking further checks and economic intelligence.

- f) The use of treasury advisers, and their role, should be clarified.
- g) CIPFA should review its guidance on the Annual Investment Strategy, the use of advisers, and the use of credit ratings.
- h) The Debt Management Office should review its policy on charges for the early repayment of debt.

Actions taken previously, or in response to the report

3.2 Members will be aware that officers have taken and planned a number of actions in response to the Icelandic bank collapse. It is important to recognise that there will be periodic bank crises, and that these will take different forms. However, local authorities must ensure that their policies and practices are as sound as possible so that risks are appropriate. Responding to the report:-

- a) The annual Treasury Strategy report discusses the relationship between risk and return, and the factors considered in establishing the council's lending list. The lending list was constructed on the basis of high quality credit ratings. However, the revised lending list, previously reviewed by the Audit Committee, seeks to improve security by using group limits, country limits, country ratings and more rigorous ratings.
- b) The treasury team is well resourced, experienced and enjoys regular training opportunities. There is access to information from economists, CIPFA and the treasury adviser. A new treasury management qualification, developed with the Association of Corporate Treasurers, is being considered for staff. However, it is apparent that practices will need to be improved. It is planned that treasury policies and practices will be reviewed at least annually, and that training records should be current. Dealers will need to ensure that communications (usually emails) from the adviser about credit rating changes are kept under regular review – it is expected that these will become less frequent as the credit crisis eases.
- c) Officers continue to share expertise through the London Treasury Forum, benchmarking and advisers' conferences.
- d) The Audit Committee receives regular reports on treasury activity and has scrutinised the processes followed within the authority. Nineteen Councillors attended the training session arranged with an independent training organisation. Further learning and development opportunities will be made available as appropriate.
- e) Although the council has strengthened the lending list by including a specific credit rating for countries, officers have arranged access to the credit lists used by two treasury and pension fund managers. The treasury adviser, Butlers, has begun to publish additional information which may prove to be useful. However, at present the Council continues to use a very restricted lending list.
- f) The contract with the adviser, Butlers, remains very clear – Butlers supply both advice and information. It is apparent that Butlers have sought to improve the depth of information since last year, and advised on the March debt repayment exercise. As the contract is subject to review in 2010, the quality and sources of information will be further examined. The Council continues to take advice and information from a wide variety of sources, including Capital Economics, treasury and pension fund managers.
- g) Further advice from CIPFA is awaited.

- h) It is understood that the PWLB is reviewing its terms for the early repayment of debt.

Developments since the last meeting of the Audit Committee

- 3.1 Members will be aware that Brent deposited £15m with Icelandic banks in 2008. The administrator for Heritable Bank, where Brent deposited £10m, has reported that local authorities are likely to receive around 70% - 90% repayment of cash and interest. The actual recovery will depend on timing and patience, as a rapid sale of assets will generate poor returns, and the state of the property market. The first repayment of £1.6m (16%) was received in July 2009.
- 3.2 A list of deposits as at 31st August 2009 is attached as Appendix 1. Most of the cash deposits, excluding those with money market funds that support cash flow requirements, are long-term at high interest rates. Markets have become more confident, and interest rates charged on lending between banks (the 'wholesale market') have reduced. World stock markets have also risen sharply. However, although the Brent Lending List remains much reduced from 2008, the Council continues to borrow money short term (at low rates) rather than make many new deposits. On this basis, there is as yet little requirement to introduce a wider List based on the credit ratings and other criteria previously seen by the Committee.
- 3.3 The Annual Report on Treasury Management for 2008/09 is attached as Appendix 2 for information. The report has been recommended to Full Council by the Executive.

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

House of Commons Select Committee report on Local Authority Investments
Annual Treasury Strategy – Report to Full Council as part of the Budget
Report – March 2009

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

DUNCAN McLEOD
Director of Finance and
Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

APPENDIX 1


Brent treasury lending list – Icelandic banks

1 The current loans outstanding as at 31st August 2009 are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	5.0	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Cheshire BS	5.0	1.355	07.05.08	07/05/10
Heritable bank	8.4	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Barclays Bank	6.5	0.45	30.07.09	01.09.09
Dunfermline BS	5.0	1.136	04.02.08	04/02/10
Newcastle BS	5.0	6.05	28.04.08	28/04/10
Derbyshire BS	5.0	6.4	16.06.08	16/06/10
Dunfermline BS	5.0	5.9	01.07.08	01/07/10
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	<u>5.0</u>	7.0	22.09.08	22/09/11
Total	60.1			

Brent has also invested £23.0m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen (as at 31st July) is as follows:-

	£m	%	Maturity
RBOS CD	2.0	0.89	25.11.09
Barclays Bank CD	2.6	0.91	30.11.09
Nationwide BS CD	2.2	0.91	30.11.09
Clydesdale Bank CD	2.4	0.91	02.12.09
Lloyds TSB CD	2.1	0.95	21.12.09
Lloyds TSB CD	1.0	1.04	04.02.10
Barclays Bank CD	1.5	1.08	25.02.10
RBOS – CD	2.3	1.21	07.05.10
Abbey National – CD	2.3	1.22	10.05.10
Nationwide – CD	2.2	1.22	10.05.10
Deposit account – Abbey Nat.	2.0	Call	
Accrued interest	<u>0.4</u>		
	<u>23.0</u>		

	<p style="text-align: center;">Full Council 14th September 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
<p>The Treasury Management Annual Report 2008/09</p>	

1. SUMMARY

The purpose of this report is to provide information to members on borrowing and investment activity during 2008/09. It also sets out how the Council performed against prudential indicators set in the 2008/09 budget.

2. RECOMMENDATIONS

Full Council is asked to:

- 2.1 Approve the Treasury Management Annual Report (section 3); and Annual Investment Strategy Report (Section 4)
- 2.2 Note the outturn for prudential indicators (section 5).

3. TREASURY MANAGEMENT ANNUAL REPORT

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

- a) The economic background for 2008/09 (paras 3.3 to 3.4)
- b) The agreed treasury strategy (para 3.5)
- c) Borrowing activity during 2008/09 (paras 3.6 to 3.9)
- d) Lending activity during 2008/09 (paras 3.10 to 3.18)
- e) Overall interest paid and received (para 3.19)
- f) Developments since the year end (para 3.20)

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

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

ECONOMIC AND MARKET BACKGROUND DURING 2008/09

- 3.3 World economic growth fell sharply in 2008 to 3.3% (2007 5%), following a period of rising interest rates and the dearth of credit for trade and business. Rising inflation rates (CPI rose by 5.3% in the year to September 2008) made the policy response more difficult, as commodity prices rose sharply driving up food and fuel costs. The problems of sub-prime debt, and the ensuing credit crisis, led to the collapse / reorganisation / nationalisation of numerous major banks such as Lehman Brothers, RBOS, HBOS, Merrill Lynch and others. The collapse of the Icelandic banking system had particular implications for Brent. Other countries were able to support their banking systems or work with others to maintain stability, but Iceland was unable to support its major banks. Financial markets have also been weak – equity, property and credit markets fell sharply. The response from central banks has been robust – USA reduced rates (from 2% to 0.25%), UK from 5% to 0.5%, and Europe from 4% to 1%. Rate reductions have been co-ordinated and deep, and complemented by fiscal support packages and quantitative easing, where banks have sought to expand the money supply to increase the flow of credit. It appears that these unprecedented steps have been partially successful – the economic freefall of the period October 2008 to March 2009 has been arrested – but a return to growth may be slow and difficult.
- 3.4 As indicated in Table 1, very long-term (50 year) interest rates were fairly stable. Initially shorter periods reflected strengthening inflationary pressures, but then fell sharply in response to falling bank rates and quantitative easing. The interest rate yield (return) curve was inverted during 2006 – 2008 (short term rates higher than long term rates), but the sharp falls in short term rates have ‘normalised’ the curve so that long term rates are higher than short term.

Table 1 – PWLB Interest rates during 2008/09

	31 March 2008 %	30 June %	30 Sept. %	31 March 2009 %
10 year	4.59	5.24	4.60	3.38
25 year	4.63	4.94	4.71	4.28
50 year	4.45	4.52	4.60	4.58

STRATEGY AGREED FOR 2008/09

- 3.5 On the basis of advice and research from Butlers (the treasury adviser), Capital Economics and managers, the Treasury Management strategy anticipated that Bank Rate would fall to around 4.5% in 2008/09 and that 50 year rates would rise marginally to around 4.60%. It was expected that in-house balances would remain stable (at £100m) reflecting borrowing to finance the 2008/09 capital programme. The borrowing strategy assumed that long-term rates would rise marginally during 2008/09. It was agreed to borrow at fixed rates unless short term rates fell sharply, to maintain debt at the authority's Capital Financing Requirement (CFR) and to take advantage of debt restructuring opportunities.¹ Maintaining debt at CFR means that the authority will maintain balances for lending on the money market when they are not required to fund expenditure. The strategy has remained under constant review and adapted as circumstances have required, but without major changes.

BORROWING ACTIVITY DURING 2008/09

- 3.6 The split of the council's treasury portfolio between fixed interest and variable loans and investments, as at 31 March 2009, is set out in Table 2.

Table 2 – Treasury portfolio at 31st March 2009 – loans and investments

	31.03.08 Actual £m	31.03.2009	
		Planned £m	Actual £m
Fixed rate loans – PWLB	526.8	548.0	512.0
Variable rate loans – PWLB	-	-	-
Variable rate loans – Market	80.5	80.5	85.5
Short-term loans – Market	14.2	-	69.5
Total Debt	621.5	628.5	667.0
INVESTMENTS	110.1	100.0	97.2
NET DEBT	511.4	528.5	569.8

- 3.7 The average rate of interest payable by Brent Council on its loans has fallen from 5.86% in 2006/07, to 5.09% in 2007/08, and to 4.87% in 2008/09. In 2008/09 Brent Council restructured debt and took new loans as follows:
- Borrowing two £5m market loan (known as LOBOs – or Lenders Option, Borrowers Option) in April 2008. The loans are fixed at rates of 3.99% and 3.95% for an initial period of one year, before the lender may request a change to the rate. If this happens, the Council (the borrower) may repay the loan without penalty rather than pay the increase.

¹ The Capital Financing Requirement is the difference between the authority's total liabilities in respect of capital expenditure financed by credit and the provision that has been made to meet those liabilities. Research by our treasury advisers, indicates that it is the most economical level for the authority's long-term debt.

- b) In addition, £50m was borrowed from PWLB to replace maturing debt and to finance capital expenditure. This comprised: two loans of £20m each (April 2008), for fifty years at 4.43% and 4.39% respectively, seeking to take advantage of favourable long-term rates: a £10m loan at 3.93% for one year, taking advantage of falling short rates at a time when market conditions were volatile (October 2008).
- c) A debt restructuring was undertaken in March 2009 to repay £64.8m PWLB debt, with the intentions of taking advantage of lower 10 year interest rates, reducing cash balances to reduce counter-party risk and recognising the low rates of interest available on deposits. Taking into account premia paid to the PWLB for debt redeemed early (£8m), the annual savings are expected to be around £1.5m / £2m per annum to the General Fund. The repayment reduced long-term Council debt to £597.5m, below the CFR target of £627m, reflecting that it was cheaper to use short term debt than more expensive long term liabilities.

Initially the interest rate curve was inverted in 2008/09, meaning that short term borrowing was more expensive than long-term borrowing. Later in the year, when the interest rate curve returned to normal, the council took advantage by repaying debt and borrowing on short term, relatively good value, markets until long term deposits are repaid.

- 3.8 The PWLB has continued its more expensive calculation of the discount rate payable when councils repay debt prematurely. The effect is to raise the size of premia payable (or reduce the value of discounts receivable), which continues to inhibit debt restructuring unless movements are extreme..
- 3.9 The duration and average interest rate, of loans in the treasury portfolio at 31st March 2009 is set out in Table 3.

Table 3 – Treasury portfolio at 31st March 2009 – duration/interest rates

Maturing Within	£m 31.03.08 31.03.09		Share of total debt %	Average Interest Rate 2008/09 %
1 Year	14.2	78.5	11.9	0.99
1 – 2 Years	-	-	-	-
2 – 3 Years	-	-	-	-
3 – 4 Years	-	-	-	-
4 – 5 Years	-	-	-	-
5 – 6 Years	-	-	-	-
6 – 10 Years	-	-	-	-
10 – 15 Years	5.0	5.0	0.8	8.88
Over 15 Years	521.8	497.0	74.5	4.96
Variable – PWLB	-	-	-	-

Variable – Market	<u>80.5</u>	<u>85.5</u>	<u>12.8</u>	<u>4.58</u>
TOTAL	<u>621.5</u>	<u>667.0</u>	<u>100.0</u>	<u>4.87</u>

LENDING ACTIVITY DURING 2008/09

3.10 The council's investments averaged £126m during 2008/09 (£118m during 2007/08) and earned £7m in interest. The amount invested varied from day to day depending on cash-flow and the Council's borrowing activity. Responsibility for investing funds was split between the in-house team, which manages approximately 80% of the investments and an external house managing approximately 20% of the investments.

3.11 Investments by the in-house team ranged from overnight deposits of money to periods of up to three years. A total of £624m was lent out during 2008/09 (2007/08 £969m). Rates achieved ranged between 7% and 0.4%, with the average rate being 5.25% (2007/08 5.21%). Some of the portfolio was lent for longer periods to guard against falling interest rates. Balances held to manage shorter term cash flow needs have been deposited substantially in Money Market Funds, taking advantage of higher inter-bank rates. Loans were made to high quality counterparties included on the Treasury Lending list. Appendix 1 lists the deposits outstanding at 31st March 2009. The list shows that interest receipts have been protected by the longer duration deposits made with various banks and building societies.

3.12 As stated above, the financial tsunami following the bankruptcy of Lehman brothers forced a number of banks into administration and the collapse of the main Icelandic banks (7th October 2008). Brent Council has two deposits outstanding with Icelandic banks, as follows:-

Heritable	£10m	5.85%	Lent 15.08.08	Due back 14.11.08
Glitnir	£5m	5.85%	Lent 15.09.08	Due back 12.12.08

3.13 The deposits were made at 'good' rates, but not rates that were wildly out of line with the rest of the market. Both banks are in administration, and the Council continues to work with the Local Government Association and other authorities to recover the loans. All other deposits have been repaid on time. The most recent advice from CIPFA, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) states that authorities are likely to be treated as secured creditors to Glitnir, recovering both deposit and interest to October 2008 during 2009/10. The administrators for Heritable state that creditors should receive between 70% and 90% of deposit plus interest to October 2008 by instalments to 2012. The first instalment (16%) was paid in July 2009.

3.14 Members will be aware that, as the size of the credit crisis became apparent, a number of steps were taken both to reduce risk and to inform members:-

- a) On September 30th 2008, the Director of Finance reduced the number of financial institutions on the lending list following the nationalisation of various European and USA financial institutions, removing relatively lower rated UK and overseas banks, including Glitnir and Heritable.

- b) On 8th October the list was further reduced to exclude all overseas banks, and limit duration to a maximum of three months. Building societies remained eligible for deposits after individual authorisation by senior management, but were limited to one month duration and a maximum deposit of £5m. It was believed that close scrutiny by the FSA, and the long track record of building societies being taken over by other societies in the event of difficulties made such deposits completely safe. However, in April 2009 it became clear with the near collapse of Dunfermline building society that societies had been allowed to invest in risky areas, and they were removed from the lending list.
- c) On 26th March 2009, a number of PWLB loans were repaid, to the value of £64.75m, reducing the value of deposits made to counterparties in future.
- d) Regular reports to members, in particular Policy and Co-Ordination Group, The Budget Panel, Performance and Finance Select Committee and quarterly reports to the Audit Committee, and training for members (May 6th 2009) on the scrutiny and oversight of treasury management.

3.15 External cash managers were initially appointed in 1998 to manage two portfolios with the aim of achieving an improved return at an acceptable level of risk. Aberdeen Asset Management has managed a portfolio throughout the period. The value of the Aberdeen's portfolio was £22.8m as at 31st March 2009 (£21.3m 2008). Actual performance for 2008/09 (2007/08 in brackets), and the three and five years to 2008/09 are set out in Table 4.

Table 4 - Performance of Aberdeen Asset Management against benchmark

	Aberdeen %		Brent in-house %	7 Day LIBID Benchmark %
2008/09	7.0 (5.7)		5.25 (5.2)	3.8 (5.7)
Three Years	5.8		5.2	4.8
Five Years	5.4		5.0	4.7

- 3.16 Aberdeen outperformed the benchmark in 2008/09 by using longer dated certificates of deposit of up to twelve months duration with financial institutions on the Brent lending list, a sound strategy when rates were falling sharply.
- 3.17 The in-house team did not have access to the same wider range of lending instruments as the managers (gilts or CDs), but was able to add value by using money market funds (pooled funds managed by city finance houses) or by lending on the market for longer periods. The Brent strategy had identified that core balances of £60m would not be needed for immediate cash flow purposes, so that £60m could be lent for periods up to three years.
- 3.18 The three and five year records indicate that Aberdeen has achieved their out-performance target (+0.5% per annum). Aberdeen is among the best managers over all periods (there are around ten in the market).

TOTAL INTEREST PAID AND RECEIVED

- 3.19 Total interest paid and received in 2008/09 are shown in Table 5. The additional interest paid on external debt reflects early borrowing (at a lower rate) to fund the capital programme and interest paid to accounts that are deemed to be 'external' to Brent Council, such as the Pension Fund. The increased interest received on deposits reflects higher market rates (5.25% received against 4.75% assumed) and higher cash balances (average £126m).

Table 5 – Overall interest paid and received in 2008/09

	Budget £m	Actual £m
Interest paid on external debt	31.3	32.8
Interest received on deposits	3.5	7.0
Debt management expenses	0.4	0.1

By way of comparison, interest received on deposits was £5.0m in 2006/07 (budget £4.2m) and £6.2m in 2007/08 (budget £3m).

DEVELOPMENTS SINCE THE END OF THE YEAR

- 3.20 Financial markets have been calm since the end of the financial year. The wholesale, inter-bank market has seen the interest rate differential (spread) between LIBOR (London Inter Bank Offer Rate) and bank rate fall sharply, indicating that inter-bank lending is increasing and risk premia falling. If financial stability continues to improve, it is expected that a revised Brent Lending List - that has previously been scrutinised by the Audit Committee and includes sovereign (country) ratings and limits, shorter durations, lower limits and higher rating requirements – will be implemented in the autumn.

4 ANNUAL INVESTMENT STRATEGY

- 4.1 Regulations issued under the 2003 Local Government Act require that councils agree an Annual Investment Strategy (AIS) before the beginning of each year, setting out how investments will be prudently managed with close attention to security and liquidity. The AIS for 2008/09 was agreed by Full Council in March 2008. The AIS sets out the security of investments used by the authority analysed between Specified (offering high security and liquidity, with a maturity of no more than one year) and Non-Specified (entailing more risk or complexity, such as gilts, certificates of deposit or commercial paper) investments. The AIS also sets out the maximum duration of deposits.
- 4.2 To discourage the use of investments that may be considered speculative, the acquisition of share or loan capital in any body corporate (such as a company) is defined as capital expenditure. On this basis, the Council does not invest treasury balances in shares, corporate bonds or floating rate notes issued by companies, though there is authority to invest through pooled schemes which are not considered capital expenditure.

4.3 Treasury activity has complied with the AIS in 2008/09. The main aspects have been:-

- a) The council has made cash deposits for a maximum duration of three years, using 5.75% as an attractive trigger point for lending. The external manager has invested in certificates of deposit and cash deposits.
- b) Investments have been made to counterparties that meet appropriate credit ratings which have been monitored on a continuous basis.
- c) As set out in paragraph 3.13, credit related losses arising from deposits with Icelandic banks have been disclosed in the 2008/09 accounts, though regulations provide for Councils to defer actually providing for the losses until 2010/11.

5. PRUDENTIAL INDICATORS – 2008/09 OUTTURN

5.1 The introduction of the new prudential system of borrowing in the 2003 Local Government Act (LGA) gave new opportunities for councils to assess their requirements for capital spending, and not have them restricted by nationally set approvals to borrow money (credit approvals), as previously. The new system also brought new responsibilities on councils to ensure that:

- a) capital expenditure plans are affordable;
- b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- c) treasury management decisions are taken in accordance with good professional practice.

5.2 Under regulations issued under the 2003 LGA councils are required to follow the Prudential Code issued by CIPFA which sets out how councils ensure responsible use of new freedoms. The Code details indicators that councils are required to set before the beginning of each year, to monitor during the year, and to report on at the end of each year.

5.3 The outturn for prudential indicators measuring affordability is set out in Table 6 below. General Fund and HRA capital financing charges as a proportion of total budget were lower than in the original estimates principally because the average borrowing rate fell to 4.87%.

Table 6 – Prudential indicators measuring affordability

	2008/09 (estimates)	2008/09 (actual)
Capital financing charges as a proportion of net revenue stream:		
- General Fund	9.34%	7.40%
- HRA	33.65%	32.36%
Impact of unsupported borrowing on:		
- Council tax at Band D	£36.23	£36.23
- Weekly rent	-	-

- 5.4 The outturn for prudential Indicators for capital spending is set out in Table 7. Movements within the capital programme, including slippage between years and resources becoming available during the year, were reported in the Performance and Finance Outturn report to the Executive in July 2009. Capital spending is funded from a variety of resources, including government grants, capital receipts, revenue contributions, Section 106 contributions and borrowing. This means that movements in capital spending are not directly reflected in movements in the Capital Financing Requirement (CFR), which principally reflects borrowing requirements. Total borrowing in 2008/09 was higher than estimated which meant a higher overall CFR.

Table 7 – Prudential indicators measuring capital spending and CFR

	2008/09 Estimates £m	2008/09 Actual £m
Planned capital spending:		
- General Fund	104.211	91.686
- HRA	17.991	16.604
- Total	122.202	108.290
Estimated capital financing requirement for ² :		
- General Fund	288.756	294.152
- HRA	326.964	333.459
- Total	615.720	627.611

- 5.5 The Council also sets prudential indicators for external debt which are shown in Table 8. This is to ensure that the council's overall borrowing is kept within

² The Capital Financing Requirement estimates in this table are at 31st March of each year.

prudent limits. The authorised limit for external borrowing is set flexibly above the CFR to allow for opportunities to restructure debt or borrow early when interest rates are favourable. The Operational Boundary sets out the expected maximum borrowing during the year, again allowing for cash flow, interest rate opportunities and possible restructuring. In 2008/09 the council undertook a major debt repayment as set out in paragraph 3.7, but did not exceed the Operational Boundary for external debt.

Table 8 – Prudential indicators for external debt

Indicator	Limit	Status
Authorised limit for external debt	£790m	Met
Operational boundary for external debt	£690m	Met
Net borrowing	Below CFR	Met

- 5.6 The prudential indicators for treasury management, which are included in Table 9 below, were all met. These are set to ensure that interest rate exposures are managed to avoid financial difficulties if interest rates rise sharply. Although borrowing at variable rates can be advantageous if rates are falling, a sharp rise can cause budget difficulties, and force the Council to fix rates at an inopportune time. Again, managing loan durations ensures a variety of maturity dates to avoid all re-financing happening when rates may be high. Finally, the upper limit on investments of more than one year allows flexibility to lend for longer periods if interest rates make this advantageous, particularly by external managers investing in gilts, but also ensures that a minimum level of balances is available for cash flow purposes. Opportunities for long-term lending have been taken when the market has appeared to be too pessimistic about rising rates. Investments for more than one year rose from £20m to £60m during the year.

Table 9 – Prudential indicators for treasury management

Indicator	Limit	Outcome
Treasury Management Code		Adopted in 2002
Exposure to interest rate changes		
- fixed rate upper limit	100%	100%
- variable rate upper limit	40%	5%
Maturity of fixed interest loans		
Under 12 months		
- upper limit	40%	2%
- lower limit	0%	0%
12 months – 24 months		
- upper limit	20%	0%
- lower limit	0%	0%
24 months – 5 years		
- upper limit	20%	0%
- lower limit	0%	0%
5 years – 10 years		
- upper limit	60%	0%
- lower limit	0%	0%
Above 10 years		
- upper limit	100%	100%
- lower limit	30%	98%
Upper limit on investments of more than one year	£60m	£60m

6. MINIMUM REVENUE PROVISION

- 6.1 The Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the requirement that councils set aside a minimum of 4% of their General Fund capital financing requirement to repay principal on debt, regardless of the length of life of the asset that was being financed.
- 6.2 Revised regulations which amend this requirement were issued in 2008.³ Under the new regulations councils are required to set an amount of Minimum Revenue Provision which is 'prudent'. The definition of what counts as 'prudent' is set out in statutory guidance which has been issued by the Secretary of State for Communities and Local Government and which authorities are required to 'have regard' to.
- 6.3 Under the guidance councils are required to prepare an annual statement of their policy on making Minimum Revenue Provision to Full Council. The purpose of this is to give Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements. This Policy

³ Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 – SI 2008/404

Statement was submitted and approved by the Full Council at its meeting on 2nd March 2009 within section 10 of the Budget Setting report.

7. FINANCIAL IMPLICATIONS

- 7.1 As set out in the report, the council earned additional income from external deposits as a result of lending for longer periods and having higher balances than anticipated. However, the collapse of the Icelandic banks has resulted in deposits totalling £15m not being repaid. As set out in the report, it is likely that most of the deposits will be recovered over the period to 2012.

8. DIVERSITY IMPLICATIONS

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

9. LEGAL IMPLICATIONS

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

10. BACKGROUND INFORMATION

1. Loans Register.
2. Logotech Loans Management System.
3. Butler quarterly and special reports on treasury management.
4. Aberdeen Asset Management quarterly reports.
5. 2008/09 Budget and Council Tax report – 5th March 2008
6. Reports to Audit Committee on Icelandic Banks (17th December 2008) The Treasury Strategy for 2009/10, including proposals for a revised Lending List (4th March 2009), and the Audit Commission Report on Icelandic Banks (June 16th 2009).
7. Reports to Budget Panel and Policy & Co-ordination Group (23rd October 2008), and Performance & Finance Select Committee (8th December 2008)

11. CONTACT OFFICERS

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

DUNCAN McLEOD

Director of Finance and Corporate Resources

APPENDIX 1

Brent treasury lending list – Icelandic banks

2 The current loans outstanding **as at 31st March 2009** are:

Name	£m	Amount %	Yield Date	Lending Date	Maturity
HBOS		5.0	6.0	16.04.07	16/04/10
HSBC		5.0	5.4	18.04.07	19/04/10
Cheshire Building Soc		5.0	6.59	30.07.07	30/07/09
Global Treas. Fund (RBS)		9.2	Var.	Call	
Gartmore cash reserve		0.1	Var.	Call	
Cheshire BS		5.0	2.6	07.05.08	07/05/10
Heritable bank		10.0	5.85	15.08.08	14/11/08
Glitnir		5.0	5.85	15.09.08	12/12/08
Northern Trust global fund		0.1	Var.	Call	
Dunfermline BS		5.0	5.99	04.02.08	04/02/10
Newcastle BS		5.0	6.05	28.04.08	28/04/10
Derbyshire BS		5.0	6.4	16.06.08	16/06/10
Dunfermline BS		5.0	5.9	01.07.08	01/07/10
Skipton BS		5.0	6.48	01.07.08	01/07/11
RBS		<u>5.0</u>	7.0	22.09.08	22/09/11
Total		74.4			

Members will notice that the value of deposits has declined sharply as a result of Brent repaying £64.75m in long-term debt. The repayment will both reduce costs and risks arising from making deposits with financial institutions.

Brent has also invested £22.8m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen is as follows:-

Nationwide BS CD	2.1	2.21	23.06.09
RBOS CD	2.2	2.21	25.06.09
Alliance & Leics CD	1.8	2.29	06.08.09
BOS (Gov guarantee)	2.2	1.67	19/10/09
RBOS CD	2.0	2.39	25.11.09
Barclays Bank CD	2.6	2.39	30.11.09
Nationwide BS CD	2.2	2.39	30.11.09
Clydesdale Bank CD	2.4	2.39	02.12.09
Lloyds TSB CD	2.1	2.4	21.12.09
Lloyds TSB CD	1.0	2.3	04.02.10
Barclays Bank CD	1.5	2.32	25.02.10
Accrued interest	<u>0.7</u>		
	<u>22.8</u>		

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