



# LONDON BOROUGH OF BRENT

## MINUTES OF THE AUDIT COMMITTEE

Wednesday 3 March 2010 at 7.30 pm

PRESENT: Councillor Cummins (Chair), and Councillors Butt and Detre

Apologies were received from Councillor H M Patel

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

None declared.

2. **Deputations**

None received.

3. **Minutes of the previous meeting**

RESOLVED:

that the minutes of the previous meeting, held on 17 December 2009, be approved as an accurate record of the meeting.

4. **Matters arising**

*Minute 5 – Treasury Management Report*

The Chair reported that he had been consulted by officers on the appointment of the Council's treasury adviser. Minded to endorse the appointment, he had in turn consulted the other members of the Audit Committee, Councillors H B Patel and Butt. This had been done in the interests of transparency and the Council's previous advisers had been replaced through a process of consideration. Asked whether the committee's involvement had created a precedent, Duncan McLeod (Director of Finance and Corporate Resources) informed the Committee that this was not the case and that the process could in any case be reviewed for the future. Duncan McLeod told the Committee that he felt the involvement of members in what was already a rigorous process had been useful.

5. **Audit Commission documents**

Duncan McLeod (Director of Finance and Corporate Resources) referred to the six documents produced by the Audit Commission in their role as the Council's external auditors. He drew members' attention to the fact that the progress report on the work currently being planned or undertaken by the Audit Commission included a commentary on International Financial Reporting Standards (IFRS). He also pointed out that the Audit Commission's letter to the Committee on compliance with International Auditing Standards was not part of the progress report, as it was felt

that it was difficult to do justice to it at the meeting. A separate meeting with the Chair and the Committee would be organised to discuss it. Duncan McLeod also drew members' attention to the fact that the Annual Audit Letter summarising the findings of the 2008/09 audit had been presented to the Council's Executive in January 2010.

*(i) Progress Report, March 2010*

Paul Viljoen (Audit Commission) introduced the report, which briefed the Committee on work currently being planned or undertaken by the Audit Commission. He reported that the 2008/09 audit programme had been completed, and that two supplementary opinion plans and a report on grants were on the Committee's agenda. Paul Viljoen highlighted the fact that local government financial statements needed to comply with IFRS from 2010/11 onwards and that Brent had made progress towards this. Responding to a question about the Audit Commission's supplementary fee, Duncan McLeod informed the Committee that the single financial accounting system would be implemented from 1 April 2010. He hoped that this would lead to a reduction in fees in future years.

*(ii) Certification of Claims and Returns – Annual Report, February 2010*

Paul Viljoen (Audit Commission) informed the Committee that this report showed an improvement on the previous year, and this had been reflected in the Audit Commission's reduced fee. However, there were still issues relating to the certification of grants and amendments and qualification letters. Paul Viljoen drew members' attention to the fact that the general auditing concepts of reasonableness and materiality did not apply to grants, as a result of which matters that were sometimes very minor needed to be reported.

*(iii) Annual Audit Letter, December 2009*

Andrea White (Audit Commission) introduced the Annual Letter, which summarised work on the 2008/09 audit. She reported that everything reported on in the letter had already been put before the Committee. The main issues were that an unqualified opinion had been issued on the main accounts and the Pension Fund, as well as a conclusion on value for money. The recommendations in the Annual Governance Report had been agreed with officers and were being taken forward. Responding to members' disappointment at the scored judgement on governance, Duncan McLeod informed the Committee that the Audit Commission's commentary and action plan on areas for improvement was helpful, and that the Council had worked hard on this. The assessment of the current year was already being undertaken, with improvements expected. The governance judgement was affected by issues around audits of foundation schools, for example, which the Council would now undertake in addition to the audits carried out by the schools' own auditors. Duncan McLeod added that the Council would not be responsible for auditing the academies, as they lay outside the Council's financial framework. Simon Lane (Head of Audit and Investigations) informed members that the Council was now imposing itself as auditor on the foundation schools because it had found that some audits were inadequate. He agreed to inform members if the Council met with obstruction in this process. In response to questions from members, Simon Lane reported that it could be difficult to get schools' auditors to release audit working papers, and that the contract was between the individual school and its

auditors. While the Council could write terms of engagement with auditors and get schools to do the same, the test would be whether auditors would release working papers. Andrea White added that this was a complex arrangement, but that the Audit Commission was interested in the Council's own arrangements. She added that it was the responsibility of the Director of Finance to set up arrangements to sign off the Dedicated Schools Grant, incorporating checks and balances, and that the Audit Commission would comment on the overall arrangements. Duncan McLeod informed members that the Council's concern was that appropriate arrangements were in place. He added that, as soon as some of the audits of foundation schools had been carried out, the programme would be reviewed and amended if not adequate.

*(iv) Audit Opinion Plan, February 2010*

Paul Viljoen (Audit Commission) introduced the Audit Opinion Plan, which followed from the audit plan issued the previous year, setting out the work to be carried out and specific risks identified to date. The Audit Commission's fee had increased by £10,000 in response to specific risks identified. These included the accounting treatment of Private Finance Initiative (PFI) projects. This was part of the wider scope of IFRS, but was being introduced a year early. Other risks concerned the results of internal audit work, as well as irregularities at an individual school and subsequent arrangements. Responding to members' questions, Paul Viljoen explained that the PFI issue related to accounting for PFI projects as assets and liabilities in the Council's accounts. This was a complex chain of events, involving the need to make accounting decisions with a higher chance of errors.

*(v) Pension Fund Opinion Plan, February 2010*

Paul Viljoen (Audit Commission) briefed the Committee on the Pension Opinion Plan, which followed from the plan issued the previous year, setting out the work to be carried out and specific risks identified to date. The report had already been presented to the Pension Fund Sub-Committee. The risks identified related to unquoted investments, the valuation of which was challenging, the completeness of investment commitment disclosures and full compliance with the relevant Statement of Recommended Practice (SoRP).

While recognising the difference in the roles of the two committees, members discussed the apparent duplication of work in that this document had also been considered by the Pension Fund Sub-Committee. Duncan McLeod acknowledged that there was a level of duplication, and agreed that some anomalies needed to be resolved. He had referred the matter to the Interim Borough Solicitor, together with the proposal that the Audit Committee have an independent chair.

*(vi) Human Resources Follow-Up Report, January 2010*

Andrea White (Audit Commission) informed the Committee that the Audit Commission had reviewed Human Resources (HR) three times since 2003. Improvements had been made, but the 2005 review reported that the pace of improvement was slow. The 2008 review commented on progress in all areas, with work still to do. Since then the management structure had changed, and HR was now at the centre of the Council's business. However, improvements needed included a system of early warnings and good performance information. The role of

the strategic HR group also needed to be looked at. The report was positive in the main, and arrangements were now good, despite the slow start.

RESOLVED:

that the report and Audit Commission documents be noted.

## **6. International Financial Reporting Standards**

Ben Ainsworth (Finance) introduced the report and answered questions from Councillors on the process of transition to International Financial Reporting Standards (IFRS) from UK Generally Accepted Account Practice (GAAP). He informed the Committee that currently the Council was required to report under UK GAAP, but that in the 2007 Budget the Chancellor had announced the move to IFRS for all the government's accounts. Local authorities were also required to do this, and 2010/11 would be the first accounts fully based on IFRS. The 2009/10 and 2008/09 accounts would be restated to take account of IFRS, with the principal changes in the statement of accounts. Private Finance Initiative (PFI) projects would be brought onto the balance sheets, as well as other leases and employee benefits. Liabilities were likely to increase as a result, and this could lead to a need to increase the prudential borrowing limit. The Council was putting considerable effort into the move to IFRS. A team had been set up, led by the Head of Finance Management, with PricewaterhouseCoopers (PwC) as external consultants to advise on the standards and to analyse the PFI contracts. An outline plan was included in the report, and the Council had met with the Audit Commission to agree a set of actions. Asked about resource implications and the timescale, Ben Ainsworth informed the Committee that work on IFRS was currently being accommodated within the existing budgetary allocation. However, the Council would need to take account of the extra demands made by IFRS and plan responses to this in order to minimise the amount of work to be done. The introduction of a single financial system would help minimise any resource requirements. Duncan McLeod (Director of Finance and Corporate Resources) added that the move to IFRS was something the Council was required to do, and it had to become a top priority. He was confident that the new system would be ready when the current year's accounts were ready at the end of June 2010.

Asked whether formulae could be used to assess the value of components of buildings, Ben Ainsworth informed members that components would be assessed professionally by Council surveyors. Duncan McLeod added that this aspect of the transition had needed extra support. Answering a question about the difference between finance and operating leases, Ben Ainsworth explained that finance leases were treated as both assets and liabilities in the statement of accounts, but that operating leases were shown only as an expenses item. He added that, since the report had been written, the government had made it clear that there would be no council tax implications of consequences of the move to IFRS.

RESOLVED:

that the report be noted.

## **7. Treasury Management Strategy and Annual Investment Strategy**

Martin Spriggs (Head of Exchequer and Investment) introduced the report and answered questions from members on the Council's treasury and investment strategies and current market developments. He reported that market conditions remained volatile and that the Council had been discussing the lending list with its new treasury adviser, Arlingclose. Martin Spriggs reported that officers had met with Arlingclose for the first time on the day of the meeting, and that the company had started work at the beginning of the week. The strengths of Arlingclose included credit analysis, but their approach to lending was not dramatically different to that previously outlined to members. While the intention had been to diversify investment to overseas banks of appropriate standing, this had not been possible in the current volatile conditions, although some UK banks were being added to the lending list. However, it was hoped that market conditions would allow the addition of overseas banks in the next few months.

Answering members' questions, Martin Spriggs reported that the reference to the removal of the Halifax from the lending list (paragraph 3.3 of the report) was an error – it was in fact the Abbey National.

Asked about the contract with the Council's previous treasury adviser, Martin Spriggs reported that this would expire on 31 March 2010. The company would continue to supply information to the Council, but no active work would take place.

RESOLVED:

that the report be noted.

#### **8. Internal Audit Progress Report April 2009 to January 2010**

Simon Lane (Head of Audit and Investigations) presented the report and answered questions from members on the internal audit reports issued since December 2009 and a summary of the work of internal audit for the period 1 April 2009 to 31 January 2010. He reported that the team was on target to achieve its plan by the end of the year, when the Committee would receive a report. One concern was the higher level of limited, as opposed to substantial assurance. Currently this was 50:50, with a higher rate of limited assurance than in previous years. However, the audits were not ones that had been carried out in the past. Two limited assurance judgements related to the Corporate Health and Safety Review and an IT application for receiving cash. The target of completing Financial Management Standards in Schools (FMSIS) audits of primary schools was on track for completion by the end of March 2010, and the results of customer satisfaction surveys showed continuing relatively high satisfaction. Phil Lawson (Deloitte) added that the outcome of two audits finalised since the report had been written had shown substantial assurance. He also reported that high level recommendations had been acted on in relation to the Corporate Health and Safety Review and IT cash application.

RESOLVED:

that the report be noted.

#### **9. Internal Audit Plan for 2010/11**

Simon Lane (Head of Audit and Investigations) presented the report and answered questions from members on the proposed internal audit plan for 2010/11. Key information was the number of days allocated to various parts of the Council. For example, 100 days – out of a total of 1200 – were allocated to Finance and Corporate Resources for work on the main financial systems and 130 days to schools. A more detailed report would be presented at the end of the year. In the meantime, Simon Lane invited members to comment on any audit risks they were aware of across the Council.

Asked whether the plan was achievable, Simon Lane informed the Committee that there was always a risk of slippage, particularly in relation to the major transformation programme the Council was undertaking. However, the number of audit days would be delivered, even if there was slippage in relation to timing.

RESOLVED:

that the report be noted.

10. **Date of next meeting**

The Committee noted that the date of the next meeting of the Audit Committee would be confirmed by Full Council in May 2010.

The meeting closed at 8.55 pm

M CUMMINS  
Chair