

Progress Report

September 2010

Brent London Borough

Audit 2009/10

Audit Committee 30 September

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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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Summary

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress

- 2 Our 2009/10 audits of the Council and its Pension Fund are almost complete. The 2009/10 Annual Governance Reports are included on the Agenda for the Audit Committee's consideration. The reports were agreed with the Director of Finance and Corporate Resources and officers have agreed to complete the action plan. This summarises our progress on the audits of the financial statements.
- 3 We have finalised all of our performance reviews detailed in our Audit plan. These are detailed below:
 - We carried out a high level review of the Council's One Council project. Good progress has been made on the project, with positive investment in project management and internal skills development. Risks have increased by bringing forward the savings targets from four to two years in order to address challenges of reduced public sector funding. This report is attached as an appendix to the progress report.
 - Our joint review of Health Inequalities identified strong commitment from the Council and NHS Brent to tackle health inequalities, supported by strong leadership. Challenges include ongoing monitoring of progress against actions, particularly in light of reduced public sector funding. This report is included on the agenda for the Audit Committee.
- 4 The District Auditor has completed her review of the Council's arrangements in respect of Copland School. Her report has been agreed with the Chief Executive and the Director of Finance. A copy is included on the agenda for the Audit Committee's consideration. The District Auditor decided not to issue a public interest report because:
 - the matters are already in the public domain; and
 - the Council has already taken action to address the failings at the School and to strengthen its own arrangements.

Fees relating to the consideration of matters under auditors' specific powers, including the appointment of legal or other advisors to auditors, are borne by the Council. Fees charged in relation to the Copland investigation amount to £40,500 excluding VAT.

International Financial Reporting Standards

- 5 We have summarised the International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

International Financial Reporting Standards: accounting for employee benefits (July 2010)

- 6 Our latest briefing paper looks at the practical issues that authorities may face when accounting for employee benefits. In particular it considers issues arising from accounting for:
- short-term compensated absences; and
 - long-term disability benefits.
- 7 You can visit www.audit-commission.gov.uk/IFRS for more information about IFRS and implementation work.

Recent Audit Commission announcements and publications

- 8 The Audit Commission has been abolished, effective from 2012, in a recent government announcement. We have included a copy of a letter sent to all bodies regarding the current position and immediate impact as an appendix to the progress report.
- 9 The Audit Commission has revised the approach to value for money. We have provided a copy of a letter sent to all bodies for the Audit Committee as an appendix to the progress report.
- 10 The Audit Commission produces a regular Councillors' Update. This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work. If you have not automatically received your copy of Councillors' Update, please subscribe via the following link: [Councillor Update newsletter - Audit Commission](#)

Certifying claims and returns (July 2010)

- 11 Our first annual report of auditors' certification work in 2008/09, which is available to download from this page, covers claims and returns in England totalling £45.6 billion.
- 12 Auditors have found that most claims for grants and subsidies have been completed by councils in line with the terms and conditions set by grant-paying bodies. But there is room for improvement. Claims and returns were corrected by £54.5 million as a result of our auditors' work, which found errors or examples of non-compliance with grant terms and conditions. Auditors flag up these issues with claimant councils and those who pay grants.

Scope for error

- 13 Housing and council tax benefits are a particular concern with 85 per cent of claims qualified, amended, or both by auditors. The report says the complexity of the system and large volume of transactions provides much scope for error. Common issues are difficulty with documentation to support payments to benefit claimants and data entry errors.

Improving practices

- 14 Some authorities need to improve their practices. The number of qualification letters issued by auditors to authorities, signalling concerns with a claim or return, increased from 626 in 2007/08 to 673 last year: 24 per cent of claims and returns had qualification letters.
- 15 Authorities need to:
 - identify all claims and returns requiring auditor certification and agree a timetable for certification work with their auditor;
 - have effective quality assurance arrangements that ensure claims and returns are properly reviewed before sending them to the auditor;

- review scheme terms and conditions to ensure claims and returns are compiled correctly and evidence requirements are met; and
- keep full working papers to support the entries in claims and returns.

Local Government Pensions in England (July 2010)

- 16** The Local Government Pension Scheme is the UK's largest public sector pension scheme by membership. In our latest information paper, we examine its long-term affordability, and find that although it is backed by local funds, recently investments have failed to deliver the anticipated returns, and the funds currently cover only about three-quarters of the scheme's future liabilities.
- 17** The paper, which is available to download from the Audit Commission website, is intended to inform Lord Hutton's inquiry into public sector pensions. In it, we suggest some actions that could be taken to put the Local Government Pension Scheme on a better financial footing, such as:
- Employee contributions could be raised, but tapered to discourage members on lower salaries from opting out.
 - Savings could be made by raising the normal retirement age and reducing the rate at which pension benefits are earned.
 - Local pension funds could be allowed more discretion to adjust the level of benefits offered to pension fund members.
 - Local government employers should keep liabilities in check by controlling wage costs.

Against the odds (July 2010)

- 18** Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. Our new study looks at the financial, personal and social cost of teenagers who are so-called NEET - not in education, employment or training. The study has found that the problem may be worse than the annual 'snapshot' survey shows, but that a new approach can make scarce resources work harder for those at greatest risk.
- 19** The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.

Appendix 1 – Key Deliverables 2009/10

Table 1 Progress on Key Deliverables for 2009/10

Product	Timing	Current position
Planning		
Audit Plan	January 2009- March 2009	Plan presented to Audit Committee in June 2009
Opinion		
Work on financial systems	December 2009 – June 2010	This complete. We have completed out Opinion plan and presented to Audit Committee in March 2010
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2010	This is in progress, and our Annual Governance Report (AGR) is included on the agenda for the Audit Committee.
Use of Resources		
Health Inequalities phase 1 phase 2	May 2010 October 2010	Phase 1 complete and report issued Phase 2 complete and report issued
Performance management follow up	June 2009 to December 2009	Review complete and report issued
HR follow up	December 2009 to February 2010	Review complete and report issued
Project management review	January 2009 to March 2010	Review complete and report issued
Value for money conclusion	June 2010 to September 2010	Our draft unqualified opinion is included in the AGR
Use of resource judgements	February to July 2010	This work was stopped based on the new government's direction

Appendix 2 – Key deliverables 2010/11

Table 2 Progress on Key Deliverables for 2010/11

Product	Timing	Current position
Planning		
Audit Plan	January 2010- March 2010	Plan presented to Audit Committee in June 2010
Opinion		
Work on financial systems	December 2010 – June 2011	
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2011	
Use of Resources		
Building schools for the future		This will not take place as a result of the government cancelling the Brent projects.
Project management review		
Value for money conclusion	June 2011 to September 2011	
Use of resource judgements	February to July 2011	This is no longer applicable.
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 3 – Review of One Council project

Background

- 20 Brent Council is implementing an ambitious and forward-looking transformation programme which seeks to deliver significant service improvements, reduce operating costs, and create a more efficient and streamlined council. The Council's four year Improvement and Efficiency Strategy was launched in 2008 and highlights three themes to drive improvement and create more effective use of the Council's resources:
- Brent One Council;
 - Raising performance and maximising efficiency; and
 - Delivering major projects.
- 21 The recently agreed Improvement and Efficiency Action Plan (2010-2014) identifies 35 projects, categorised as gold, silver or bronze. The plan aims to better integrate the way the Council delivers its services, and enable it to become more customer focused. The intention is to provide high quality services to customers in the most cost effective way. Implementation will involve a series of step changes and enable the Council to generate an anticipated £50 million in efficiency savings.
- 22 The transformation programme is a political priority and commands a high profile. It is committed to at elected member, chief officer and senior management level and will have wide and considerable implications for major frontline and support services, including property, ICT, and human resource activities. However, what was initially a four year improvement programme spanning 2010-2014 has now been brought forward two years and the timelines for delivery is 2012. By fast tracking the One Council cost reduction programme the Council aims to complete its planned service re-design and organisational restructure before relocating to new civic centre offices in 2013.
- 23 The Council has commissioned consultants Deloitte to provide external assistance and expertise during the programme's early stages, and ensure programme management skills are transferred to the Council team members.
- 24 The risks attached to a large change programme of this nature were highlighted in the Council's Audit and Inspection Plan for 2009/10, and the governance and control arrangements for managing the programme are the subject of this review.

Approach:

- 25 Our review involves a high level assessment of Brent Council's programme management framework. This is in order to address the requirements under our Value for Money conclusion. It provides a snapshot of the project management structures

and control processes in place to March 2010. The interim assessment is based on available Use of Resources and supporting project management documentation obtained for the period ended 31 March 2010. The aim is to provide assurance that appropriate processes are in place, and highlight any risk areas that may impact on objectives.

Summary of initial findings:

- 26 At the current time the programme has a medium / high inherent risk in that it is large, complex and its implementation will have a long-term impact on the Council's ability to deliver its core business. The Council has built up a track record of delivering change projects but these are not of a similar size and scale as the transformation programme. It acknowledges the need to invest in quality project management and further develop its internal skills. The Council has also brought forward its target date for achieving cost reductions and savings by two years and this will contribute significantly to the risks for achieving the targets it has set itself by 2012.
- 27 The programme risks are being partly mitigated by:
- strong leadership and a highly visible champion for change through the Chief Executive;
 - a clear and demonstrable business rationale for transforming the Council's services;
 - well documented and accessible implementation plans and guidelines;
 - a sound programme management framework with clear reporting hierarchies and information flows;
 - the adoption of a formal project management methodology;
 - a dedicated internal Programme Management Office and support team to manage and support the key projects and ensure seamless transition between the project implementation phases;
 - external expertise to help develop the programme and project management arrangements, co-ordinate the project stages, and provide training during the initial change transformation stage;
 - the anticipated savings and financial returns from the projects will act as a clear motivator for re-engineering the council's services;
 - the council has adopted a business case approach to ensure value for money is achieved on projects and help identify the potential risks; and
 - a dynamic internal communication campaign to raise staff awareness and promote understanding and buy-in.
- 28 However, it is not clear from the available evidence and work carried out to-date:
- how elected members are being actively involved in scrutinising and challenging the transformation processes and outcomes;

- what the impact of shortening delivery timescales will have on project capacity; and
- how the financial implications of individual projects are being monitored.

29 These issues are summarised below.

Governance

- 30 The governance structures for managing the programme are generally well established, but at the time of reporting there was no evidence that the Council has defined a robust role for Scrutiny. Programme progress reviews include monthly and quarterly reporting to CMT and Cabinet respectively, and member challenge is believed to be through the Council's existing committee structures but this needs to be clarified. A proactive scrutiny role is important for monitoring the impact of the transformation programme particularly on those service areas important to vulnerable community groups.
- 31 The implementation plans include a benefits management system for tracking and reporting the anticipated benefits. The template includes SMART (specific, measurable, achievable, realistic and timed) criteria for evaluating whether a benefit has been achieved or not and the means of measuring success. This will be of particular importance for assessing the anticipated 'quick wins' over the short and medium term of the programme.
- 32 The standard of project documentation and guidelines is generally high. However, we noted that consideration of equalities issues were not featured in the project initiation documents, guidance notes, benefits templates, and in the project monitoring data assessed. We would expect to see equalities featured in the project business case and monitored by local project user groups, but these were not assessed. The absence of equality objectives is inconsistent with the Councils Level 4 Equalities Standard rating. Equalities consideration is of particular relevance if the transformation programme is to meet the needs of all parts of the community.

Resource management

- 33 At the time of reporting the relevant project posts had all been assigned, but the high occurrence of staff secondment sourced from local teams and services is a concern. This together with the shortening of delivery timelines will mean a high number of project groups will be running concurrently, with the risk of local skills and competencies being spread too thinly. This could place an increased demand for qualified staff and project support and threaten the success of the larger projects. There is also a risk of initiative overload with officers not having the capacity to effectively deal with implementing 35 complex and competing projects. There is insufficient information on how this will impact on the workload of secondees and project staff, and whether there are contingency arrangements to ensure that key services important to vulnerable groups are adequately covered. The impact and risks are to delivering day to day services and to project delivery times slipping.

Value for money

- 34 The review examined an early financial model that demonstrated 'quick win' vfm is being targeted by the Council. The financial model clearly outlined costs, savings and funding implications. This was supported by the proposal, which included the background, proposals, consideration of partners, risks and financial, legal, diversity and staffing implications. This was presented to the Executive, We have not been able to obtain an estimate of the spend to-date and total projected costs in terms of training, market testing, external advice and support, communications, and staff reductions etc. At the time of reporting we found no evidence of how the separate project budgets are being monitored or where and how frequently project cost items are being reported. As a result the financial governance arrangements and the longer term financial implications to the Council were not examined.
- 35 The Council has brought forward its four year target for saving £50 million from 2014 to 2012 and while significantly ambitious this is still considered to be a realistic target.

Way forward

- 36 The move towards a seamless transformation in services is being linked to a step change in Brent's culture. The Council's work to date will provide a sound framework for delivering the identified target improvements. We will liaise with the Council to discuss the second stage of our review in October 2010. Further work will now be needed to assess:
- the Council's progress in developing the change management skills required within the shortened timescale, without disruption to its business-as-usual workload;
 - how effectively the Council is applying change management techniques in the climate of intense change whilst avoiding staff change-fatigue;
 - what actions have been agreed (e.g. allocation of more resources, re-profiled programmes, repackaging of projects) to ensure the critical projects will deliver the bulk of anticipated savings; and
 - what further risks have been identified and how these are being mitigated.

Appendix 4 – VFM letter from the Audit Commission

9 August 2010

Change in approach to auditors' local value for money work

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

New approach to local value for money audit work

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

Impact on audit fees

The new approach will mean a reduction in audit fees from 2011/12.

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

Next steps

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely

Gareth Davies
Managing Director, Local Government, Housing and Community Safety

Appendix 5 – Letter from Audit Commission

19 August 2010

Local authorities including fire and rescue authorities

Dear

You will have seen the announcement last Friday by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. The proposed abolition will be from 2012 and the Government has announced its intention to seek legislation in this session of Parliament.

I am writing to confirm that there is no immediate change to the audit arrangements for your authority. As you are aware, your auditor is currently completing the audit of your 2009/10 accounts and preparing the accompanying annual audit letter.

I recently wrote to you outlining our proposed approach to the value for money element of the 2010/11 audit and this remains our planned approach. That letter also said that we will confirm the final position on 2010/11 audit fees following our September Board meeting.

We are in discussion with the Department about the proposed legislation and the details that will need to be worked through. I will write to you again in due course about the future audit programme and any changes to audit arrangements.

Yours sincerely

Gareth Davies

Managing Director Local Government & Community Safety

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.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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