



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Wednesday, 29 September 2010 at 7.30 pm

PRESENT: Councillor Al-Ebadi (Chair) and Councillors Cummins (alternate for Councillor Ashraf) and Van Kalwala.

An apology of absence was received from: Councillor Ashraf

1. Declarations of personal and prejudicial interests

None declared.

2. Minutes of the previous meeting held on 15 June 2010

RESOLVED:-

that the minutes of the previous meeting held on 15 June 2010 be approved as an accurate record of the meeting.

3. Matters arising

None.

4. Statement of Accounts 2009/10 Annual Governance Report

Duncan McLeod (Director of Finance and Corporate Resources) gave a brief introduction to the report, explaining that although the accounts had been approved by the General Purposes Committee on 29 June 2010, the Audit Committee's role involved responsibility for reviewing the annual statement of accounts to ensure that appropriate accounting policies had been followed and where necessary, concerns arising from the financial statements or from the audit are brought to the attention of the council. Members noted that the Audit Commission were in the process of completing the audit of 2009/10 accounts and the committee was requested to respond to an action plan put together by the Audit Commission.

Andrea White (District Auditor, Audit Commission) then addressed the committee and advised that work had continued on the Annual Governance report since the draft version provided to Members and that it was almost complete. Members noted that one final check was required to ensure the necessary changes to the account was needed and the unqualified opinion would be submitted on 30 September. Andrea White stated that overall the council's papers were sound with just a few issues of some concern. Members heard that because of slow or incomplete responses to requests for working papers from Adult Social Care and

Housing, the additional work required by the Audit Commission in these areas meant that the audit fee would increase by £15,000. The committee noted that there had been difficulties in respect of schools bank accounts and payrolls and an update concerning their assurances would be included in the final report that would be sent to Members to approve.

Paul Viljoen (Audit Commission) commented that additional work had been required on the Housing PFI following queries raised and revised accounting entries were awaited. He confirmed that the council had corrected entries in respect of £12.7m of bad debt write offs and the query with regard to £200,000 of expenditure for repairs had now been resolved. The issue with regard to the Willesden Leisure Centre PFI remained under review and would be subject the council's own revaluation of the property.

Paul Viljoen then referred to the Annual Governance report in respect of the council's pension fund. He confirmed that the review of the Pension Fund annual report had been completed, however £3,000 was to be added to the audit fee based on additional work to resolve issues and to follow up matters where working papers were not complete. Members noted that errors in relation to investment values had now been amended in the financial statements.

During Members' discussion, Councillor Cummins sought assurances that inadequate working papers or late responses would not recur, especially as it resulted in additional charges for the council and whether the internal audit programme needed to be accelerated. He also enquired whether problems experienced were due to the introduction of a new Finance Management System. Councillor Cummins suggested that an external pension fund adviser be appointed to advise the Audit Committee and the Brent Pension Fund Sub-Committee on such matters. The Chair concurred with this suggestion, stating that this had already been agreed but needed to be acted upon. The Chair enquired whether sufficient responses had been provided to the Audit Commission in respect of issues concerning Adult Social Care and Housing. He also enquired whether there had been any response in respect of the 20 day period for statutory inspection of accounts. Councillor Van Kalwala asked what significance were the problems concerning Adult Social care and school bank accounts and payrolls and whether the introduction of the new council wide Financial Management System would provide longer term benefits.

In reply, Andrea White confirmed that the appropriate working papers had now been received in respect of Adult Social Care, Housing and Schools bank accounts and payrolls. However, she felt there was room for improvement in Adult Social Care and Housing and advised that work needed to be undertaken to show a clear audit trail for each individual transaction. Andrea White felt that the new financial system would help to improve tracking transactions.

Duncan McLeod advised that the unqualified audit opinion needed to be signed by the Chair of the Audit Committee, Clive Heaphy (incoming Director of Finance and Corporate Resources) and himself by the deadline of 30 September and the revised Annual Governance report would be circulated to Members on the same day. Duncan McLeod explained that under the new Financial Management System, all reporting on such matters needed approval by the Director of Finance and Corporate Resources, thus allowing him more direct control. However, the

problems experienced related to the 2009/10 accounts and could not be attributed to the introduction of the new Financial Management System. Duncan McLeod advised that the Brent Pension Fund Sub-Committee had no comments to pass to the Audit Committee in respect of the pension fund. He felt that an independent pensions fund advisor was not necessary for the Audit Committee as the pension fund made up only a small part of the committee's work programme. It was noted that there had been no representations made from the public in respect of the statutory 20 day period for inspection of accounts.

Clive Heaphy added that consideration with regard to the audit next year was underway, and a new process would be trialled in December prior, which if successful, would be implemented. He advised that it was not necessary to accelerate the internal audit programme and Members noted that school headteachers would be sent letters stressing the need to respond in timely fashion to the Audit Commission's requests for paperwork. Clive Heaphy advised Members that adding an independent member to the Audit Committee was under consideration.

Members agreed to Councillor Van Kalwala's request that concerns with regard to Adult Social Care and Housing be brought to the attention of the Director of Housing and Community Care and Andrea White agreed to provide Members with a briefing note in respect of this.

RESOLVED:-

- (i) that the Annual Governance Reports from the Audit Commission and the letter of representations to the Audit Commission be noted; and
- (ii) that it be noted that the accounting policies were correctly followed and that no issues arising from the financial statements and the audit needed to be brought to the attention of Full Council.

5. Audit Commission review of Council arrangements in respect of Copland School

Duncan McLeod introduced the report which included the Audit Commission's review of the internal audit carried out in respect of Copland School. The Audit Commission had made a number of recommendations in respect of this and Duncan McLeod then referred to the council's responses to these as set out in the report.

Andrea White then presented the Audit Commission's report on the review of Council arrangements in respect of Copland School. Members were provided with the background to the Copland School case and the approach taken by the Audit Commission in reviewing arrangements. Andrea White then highlighted some of the weaknesses identified in the review, which included the fact that although there were checks to ensure compliance with council's scheme for financing schools, Copland School did not have satisfactory internal audit coverage and so this control had not worked in practice. However, once the council was alerted to Copland School's failings, it acted swiftly and decisively to ensure that those responsible were held to account and suitably replaced. Members noted the recommendations made by the Audit Commission in the report. Andrea White advised that the Audit

Commission were not issuing a public interest report as matters were already in the public domain. In addition, the council had recognised that its arrangements did not work effectively and was taking action to strengthen these arrangements.

Simon Lane added that as a foundation school, Copland School had chosen the option of being audited by an external provider rather than the council. All schools that had decided to use an external provider were provided with guidance as to what would be required of them. However, the external auditor for Copland School had failed to identify problems and Simon Lane acknowledged that the council had not monitored such schools as closely as they may have done. He advised that the recommendations of the Audit Commission had been taken on board and all foundation schools were now required to be audited internally.

During Members' discussion, Councillor Cummins, in acknowledging that all foundation schools were now internally audited, enquired whether problems at other schools had been identified and would such anomalies now be spotted more rapidly. Councillor Cummins also enquired about the possibility of asking schools to introduce a skills matrix when appointing governing body members to ensure that those appointed had the necessary skills with regard to auditing issues. Councillor Van Kalwala referred to paragraph 30 of the Audit Commission's report and suggested that the council should have requested a copy of the audit engagement letter or written reports produced by the external auditor in order to be able to check more thoroughly for any anomalies. He asked for timeframe details in respect of implementing the Audit Commission's recommendations.

The Chair enquired whether a record of Copland School's payroll was retained by the council and he suggested that the accountant for each school should receive training every six months.

In reply, Andrea White stated that she was content with the council's responses to the Audit Commission's recommendations and that it may be appropriate for an update on the council's progress in actioning these to be reported back to the committee in six months.

Simon Lane advised that all other foundation schools had since been written to with regard to staff payments and no other similar issues had come to light. He explained that because the bursar position was more junior than the headteacher at Copland School, it was more difficult to question staff payments, whilst the problem would have been identified much earlier if staff were on the council payroll. However it was noted that the council could not insist that school staff were paid through the council's payroll system. Although the council would have details of school salary costs, it would not have payroll details unless it also undertook an audit. Simon Lane referred to pages 68 and 69 of the report outlining the council's response to the recommendations and the timescale for each. He explained that a more robust approach was being taken to schools and training was also being provided to school staff, with a session arranged for headteachers and bursars on 14 October and audit issues were also being discussed with the Director of Children and Families. Simon Lane advised that the council was raising the issue of the inherent financial risks in respect of school academies with the Department for Education and the National Audit Office.

Clive Heaphy added that it was important that headteachers and bursars had sound financial awareness regarding their responsibilities and that the proper controls were in place to minimise the possibility of situations occurring like those at Copland School.

RESOLVED:-

that the report from the Audit Commission review of council arrangements in respect of Copland School report and the council's response to the Audit Commission's recommendations be noted.

6. Audit Commission documents

Andrea White updated Members on other Audit Commission documents, including a high level review of the council's One Council project. Andrea White reported that good progress had been made and strong leadership and a highly visible champion for change had been demonstrated through the Chief Executive. Some concerns had been raised in respect of demonstrating how members played a role in scrutinising the project, the impact of shortening delivery timescales on capacity and how the financial implications of individual projects are being monitored.

Paul Viljoen advised that in respect of the joint review of the council and NHS Brent in respect of Health Inequalities, both organisations had shown a strong commitment to tackle health inequalities and demonstrated strong leadership. In addition, there had been a number of actions taken to tackle rising diabetes and Tuberculosis in Brent.

Andrea White also advised that the Audit Commission had revised the approach to value for money and an update on guidance would be provided at a future meeting. She confirmed that the Audit Commission was to be abolished as of 2012, however she would remain as the council's district auditor until this time, when subject to legislation, the council would appoint its own auditor. The committee, the Chief Executive and the Director of Finance and Corporate Resources would be updated of any further arrangements in respect of this.

RESOLVED:-

that the report on Audit Commission documents be noted.

7. Internal Audit terms of reference and strategy

Simon Lane presented the report, stating that an Audit Terms of Reference was required by local authorities in accordance with the CIPFA Code of Practice on Internal Audit in the United Kingdom. The Code also requires the Head of Audit to produce an audit strategy outlining the objectives, outcomes and delivery methods which must be approved by the Audit Committee. The strategy proposed was set out over a two year period. Simon Lane then referred to internal audit terms of reference as set out in appendix one of the report.

RESOLVED:-

that the Terms of Reference and Strategy for Internal Audit be approved.

8. Internal Audit progress report

Simon Lane updated Members on progress with the internal audit and provided a summary of progress from 1 April to 31 August 2010. Members noted that as of end of August, a total of 331 days had been delivered against the overall plan, representing about 28% plan, although more had been completed since then. Simon Lane then drew Members' attention to the summary table of audited items. Whilst a number of items had obtained a substantial assurance opinion, there were a few achieving only limited assurance, such as Internal Financial Controls – Children and Families, which was of some concern.

During Members' discussion, Councillor Cummins enquired how far below the substantial assurance the Internal Financial Controls – Children and Families item was and how was this situation being addressed.

Simon Lane responded that in respect of the Internal Financial Controls – Children and Families, the five priority one recommendations made meant that there needed to be significant improvement. In particular, it was the importance rather than the number of issues raised that was cause for concern. It was noted that Children and Families had attached deadlines to carry out the recommendations and this would be followed up by the Audit Team. In addition, the anomalies had occurred prior to the Finance Modernisation project and it was anticipated that changes since then would indirectly benefit this item. In response to comments from Clive Heaphy, Simon Lane acknowledged that all cash and cheques needed to be stored in a locked safe and that an update in respect of the Ark Academy, where a response was yet to be received, would be provided to Members.

Phil Lawson (Deloitte) advised that there had been an improvement in the ratio of substantial to limited assurances since June 2010 from approximately 50%/50 % to 63%/37%.

RESOLVED:-

that the progress made in achieving the 2010/11 Internal Audit Plan be noted.

9. 2010 Treasury Annual report

Duncan McLeod presented the report and advised Members that the lending list continued to remain very restrictive because of the economic circumstances. The list would continue to be reviewed subject to changing market conditions.

RESOLVED:-

that the 2010 Treasury Annual Report and recent treasury activity be noted.

10. Date of next meeting

It was noted that the next meeting was scheduled to take place on Thursday, 16 December 2010 at 7.30 pm.

11. **Any other urgent business**

Duncan McLeod

On behalf of Members, Councillor Cummins thanked Duncan McLeod for his contribution to the committee and the council overall and wished him well for the future upon leaving the council on 1 October.

The meeting closed at 9.00 pm

E AL-EBADI
Chair