



# LONDON BOROUGH OF BRENT

## MINUTES OF THE AUDIT COMMITTEE Tuesday, 22 February 2011 at 7.30 pm

PRESENT: Councillor Al-Ebadi (Chair), and Councillors Ashraf and Van Kalwala

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

There were no declarations of interest.

### 2. **Deputations**

None.

### 3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on Thursday 16 December 2011 be approved as an accurate record of the meeting.

### 4. **Matters arising**

With reference to minute 5, the Chair noted that it had been indicated at the last meeting that in due course a report would be submitted to the Committee regarding the implications of the transfer of responsibility for public health, with associated funding. The Chair requested an update with regard to this and Clive Heaphy, Director of Finance and Corporate Services, advised that ongoing discussions were taking place with the PCT. It was currently undecided about what would be included within the transfer. It was felt that the PCT wanted to transfer the system as it currently stood, however, this was not suitable for the Authority's purpose as it was a very clinically led system. Further difficulties were envisaged as a result of the significant cut to the public health budget. Similar debates regarding the extent of the transfer were taking place nationally.

The Chair requested an update on the progress report regarding Copland School, referred to at minute 9. Simon Lane, Head of Audit and Investigations, advised that an update would be presented at a future meeting as part of the Internal Audit review.

In response to a query, Paul Viljoen (Audit Commission) advised that discussions were taking place with officers regarding the new International Financial Reporting Standards (IFRS) and that the Audit Commission Progress Report would highlight some of the key issues regarding the implementation of these.

## 5. **Audit Commission progress report**

Paul Viljoen (Audit Commission) introduced a report to the Committee outlining the work currently planned or being undertaken by the Audit Commission. It was noted that the Opinion Plan for the Council and its Pension Fund had been agreed with officers for 2010/11. An interim audit had commenced on 4 January 2011 and the key findings of the audit had been detailed in the report. Members were also advised that as part of the Commission's consultation on its work programme and scales of fees for 2011/12, it was proposed that the fees charged by the Audit Commission to the London borough of Brent be reduced by three and a half percent for the current year and by three percent for 2011/12. The consultation process would be finalised by the end of February.

With regard to the implementation of the new international Financial Reporting Standards (IFRS), the meeting was informed that Brent had been assessed under an Audit Commission survey which awarded ratings of green, amber or red. Brent had been assessed as 'red', indicating that the authority was not on track or that there were significant issues to address. It was emphasised that this rating had been allocated principally as some deliverables were not complete by the target dates and that there were concerns regarding constraints on staff capacity. A review was currently being conducted on the Council's progress against key areas for consideration against IFRS. It was felt that the Authority could successfully implement IFRS by taking the required action to prioritise the remaining workload. In response to a query, Paul Viljoen advised that the review of the Council's progress in implementing the IFRS was part of a national review conducted by the Audit Committee and due to the imminent date by which the IFRS was due to be implemented, there would not be another opportunity to review the Council's rating.

Members were reminded that the proposed abolition of the Audit Commission would be enacted from 2012/13 at the earliest. Ministers had indicated that the Commission's Audit Practice was to be transferred to the private sector and accordingly, several options were being explored by the Commission, including mutualisation as an employee owned partnership.

In responding to a query, Clive Heaphy, Director of Finance and Corporate Services, confirmed that the number of suppliers on the system currently (approximately 12,000) was a concern and work was being conducted to reduce this figure to circa 4000 initially, but still fewer as the work progressed. It was intended that there would be a single point of control in the procurement unit through which new suppliers would be approved.

RESOLVED:

That the Audit Commission's progress report be noted.

## 6. **Audit Commission, 2009/10 final accounts memo**

Gary McLeod (Audit Commission) reminded members that the Annual Governance report had been submitted to the Committee at its meeting in September, 2010, prior to the production of the Audit Commission's opinion on the Council's accounts. This report had contained the most significant findings from the 2009/10 financial statements audit. However, in conducting the audit, the Commission had identified

opportunities for the Council to improve its internal controls and financial reporting. These were set out at Appendix 2 to the current report as an action plan and related to areas including the reconciliation process, maintaining appropriate working papers and audit trails and working with external organisations where it had historically been difficult to obtain necessary information.

The Committee noted that actions to improve the working relationship between schools and the Council were actively being pursued. Members further noted the Director of Finance and Corporate Services' view that with the introduction of a new financial system, new ways of working were being established and that a cultural shift in related working practices would be sought. In response to a query, the Director informed the Committee that training for/on the new system would be rolled out to all managers and would focus on related finance, HR and procurement practices. It was intended that this training would then be cascaded throughout the organisation. The Committee was further advised that the majority of recommendations set out in the action plan would be achieved by June 2011. An update would be provided to the Committee at its next meeting regarding those recommendations for which further work would be required.

RESOLVED: -

That the report be noted.

#### **7. Audit Commission, 2009/10 certification of claims and returns - annual report**

The Audit Commission's report summarising the findings from the certification of 2009/10 claims was introduced to the Committee by Paul Viljoen (Audit Committee). The report was broadly positive and reflected considerable progress from the previous year, with 100% of claims submitted by the deadline, and significant reductions in the number of claims requiring amendment or qualification. In reflection of the council's performance the estimated grant fee for 2009/10 stood at £78k and was lower than that for 2008/09 which had been £85,956. The Council had a strong foundation to maintain continuous improvement in grant claim submissions; however, several areas requiring further improvement were identified. It was recommended that grant work be subject to a final review before being submitted to the audit team to ensure that minor errors could be corrected and that whilst working papers were satisfactory across most grants, those for the HRA Subsidy Base Data Return had historically been inadequate and required further attention.

The Committee noted that the Audit Commission met regularly with council officers to discuss grants protocol; however, performance in relation to complex claims was good and it was less complex claims where errors were more likely to arise.

RESOLVED:

That the Audit Commission, 2009/10 certification of claims and returns, annual report be noted.

#### **8. Audit Commission, 2010/11 Audit opinion plan**

The Committee received a report from Paul Viljoen (Audit Commission) setting out the proposed work to be undertaken for the audit of financial statements and value for money conclusion for 2010/11. Members' attention was drawn to several key areas of the report. The Committee noted that the fee for audit, which was currently set at £488k, was subject to a 3.5% rebate. The report detailed additional risks, appropriate to the current opinion, and these included the significant changes to the council's financial IT system and the staffing implications of the pressure to reduce costs following the Comprehensive Spending Review, on the council's ability to deliver its finance function. The audit response to these risks was also detailed and members noted that a testing strategy would be produced, which would consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

RESOLVED:

That the Audit Commission 2010/11, Audit opinion Plan be noted

#### **9. Audit Commission, 2010/11 Pension Fund opinion plan**

Gary McLeod (Audit Commission) presented a report to the Committee detailing the proposed work to be undertaken for the audit of financial statements and the value for money conclusion 2010/11 with respect to the Brent Pension Fund. The indicative fee for the audit was £35k. Members' attention was drawn to the additional risks identified as appropriate to the current opinion. These risks included the council's move to a new financial IT System, Oracle, and missing or incomplete disclosures for 2009/10 draft pension fund accounts. Members noted that the Commission would review the council's approach to ensuring all disclosure requirements were identified and completed, and would check all working papers received at the start of the audit. Any concerns regarding missing information or the quality of information provided would be reported back to the Director of Finance and Corporate Services. It was highlighted that a testing strategy would be produced and where appropriate, the work of internal audit and other auditors and experts would be relied upon.

In response to a query regarding the impact of decreasing membership of the pension scheme, the Director of Finance and Corporate Services, advised the Committee that a valuation report would be submitted to the Brent Pension Fund Committee on 1 March 2011, indicating that employers' contribution rates would rise. The council was faced with having to reduce its workforce by approximately 800 posts and this could have a destabilising effect on the pension fund. It was further noted that it was expected that the Lord Hutton report which had yet to be submitted to parliament, would recommend an increase between 1 and 7 percent in employee contributions and it was probable that pensions would be based on a career average and not final salary. This could further deter employees from joining or continuing with the scheme, and similarly destabilise the fund. The findings from the Hutton report, if implemented, would likely commence in 2015 with phased increases.

The Committee noted that there were several other organisations who were members of the Brent Pension Fund, including Brent Housing Partnership, however, Brent Council accounted for 98% of the fund.

RESOLVED:

That the Audit Commission, 2010/11 Pension Fund opinion plan be noted.

10. **2011/12 Treasury Management Strategy and Annual Investment Strategy**

Clive Heaphy, The Director of Finance and Corporate Services, presented a report to the Committee detailing the Treasury Management Strategy and Annual Investment Strategy for 2011/12, which formed part of the budget proposal due to be presented to Council at its meeting on 28 February 2011. The key headlines of the strategy were outlined to the Committee and Members' attention was drawn to the lending criteria provided at Appendix 1 to the report and the key investment and borrowing principles outlined in the strategy. The Committee was informed that lending to institutions would be subject to far tighter controls in line with an approach focused on liquidity and the security of capital sums. Borrowing would be quite high for the forthcoming financial year at £67m; this was due in part to the capital programme for 2011/12 which included the development of the new Civic Centre. The Director further highlighted that the Council's early repayment of a £50m debt to the Public Works Loans Board was anticipated to result in a saving to the Council of approximately £700k per annum.

The meeting was informed that the treasury adviser, Arlingclose, had recently provided an update in relation to the Council's investments with the Icelandic banks. Members noted that it was expected that the Council would retrieve 80 percent of its original £10m investment, along with the interest earned on this sum at 5.8 percent over the set period. The Director informed the meeting that it would be a further three to four years before the matter would be fully resolved.

RESOLVED:-

that the 2011/12 Treasury Management Strategy and Annual Investment Strategy be noted

11. **Internal Audit - third progress report 2010/11**

Simon Lane, Head of Audit and Investigation, presented a report to the Committee which set out the work of Internal Audit for the period 1 April 2010 to 31 January 2011. Members were advised that of the 1201 days allocated to internal audit for this period, by the end of January 2011 only 64 percent had been delivered against a target of approximately 80 percent. However, it was emphasised that it was expected that the team would achieve 98 percent of the agreed plan by the end of March 2011. Members' attention was drawn to the executive summary set out at Appendix 1 to the report which identified assurance ratings and priority 1 recommendations of those audits for which the final reports had been issued since November 2010. A list of those audits which were currently in progress or where a draft report had been produced was also provided and Simon confirmed that these reports would be finalised by the year end. Members' noted that the list was useful but advised that it would be helpful to have the relevant timescales indicated and

also to specify where delays were caused by a lack of response. Simon confirmed that this information could be added but that it was important for the Internal Audit team to ensure that the time in which it took to produce and distribute a draft report was reduced. Clive Heaphy, Director of Finance and Corporate Services advised that an Audit Charter was currently being developed to clarify the relationship and expectations between the Audit team and the business in question. It was agreed that an update on the Audit Charter would be provided to the Committee at a future meeting.

RESOLVED: -

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

## 12. **Audit needs assessment and Internal Audit plan 2011/12**

A report was presented to the Committee by Simon Lane, Head of Internal Audit, detailing the approach being applied in the undertaking of a formal Audit Needs Assessment (ANA) across the Council. The current approach to formulating the ANA relied upon Internal Audit's own knowledge of key risk areas and developments throughout the Council, with clarification with regard to these obtained via discussions with Directors and Assistant Directors. Members noted that in recognition of the heightened risks associated with the degree of change being experienced by the council, this approach was being formalised and strengthened. Specifically, in order to assure that all key risk areas would be identified, including new and emerging risks, the ANA for 2011/12 was being focused around several particular but interrelated internal and external risk factors. Members were advised that the output of the ANA would inform the production of the Annual Internal Audit Plan for 2011/12. The completed ANA and proposed Internal Audit Plan would be submitted for formal approval at the next scheduled meeting of the Committee and in line with this, the completed documents would be circulated to members for comment in March 2011.

Clive Heaphy, Director of Finance and Corporate Services, emphasised that the role of the Committee would be of even greater significance in the forthcoming year due to the scale of change faced by the Council.

RESOLVED: -

that the approach being taken to complete the Audit Needs Assessment and formulate the Annual Internal Audit Plan for the 2011/12 financial year be noted.

## 13. **Any other urgent business**

### *Recruitment of Chair*

The Committee sought an update on the progress achieved in recruiting a new Chair. Simon Lane, Head of Internal Audit and Investigations, advised that the recruitment process was being dealt with by the People Centre and the post had been advertised between 1 January 2011 and 28 January 2011. Interest had been expressed in the post by a number of individuals with significant experience. It was

queried whether this was a salaried post and the Chair noted that in some instances up to £5000 remuneration was provided for equivalent posts. The Committee was advised that the post was not paid as was the norm for this position within local government.

14. **Date of next meeting**

The meeting noted that the date of the next meeting of the Committee would be agreed at the Annual meeting of the Full Council in May.

The meeting closed at 8.51 pm

E AL-EBADI  
Chair