



# **LONDON BOROUGH OF BRENT**

## **MINUTES OF THE AUDIT COMMITTEE** **Thursday, 22 September 2011 at 7.30 pm**

PRESENT: Mr Wood (Chair) and Councillors Al-Ebadi and Van Kalwala

Also Present: Councillors Butt, Cheese and S Choudhary

Apologies were received from: Councillor Ashraf.

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

None

### **2. Deputations**

None.

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

RESOLVED:-

that the minutes of the previous meeting held on 15 June 2011 be approved as an accurate record of the meeting subject to "Councillor Butt" being shown as in attendance.

### **4. Matters arising**

Key management risk and risk management strategy

Clive Heaphy, Director of Finance and Corporate services informed the Committee that the report on key management risk and risk management strategy would be submitted to the Corporate Management Team (CMT) before being brought to this Committee. Consequently, the report would be put on the agenda for the next meeting.

### **5. Statement of Accounts 2010/11 and Annual Governance Reports**

Andre White (District Auditor), Paul Viljoen and Jonathan Ware (Auditor Managers) were in attendance.

The Committee gave consideration to a report produced by the Audit Commission, the Council's external auditors, based on the audit of accounts. The report was intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. A separate Annual

Governance Report produced for the Pension Fund accounts was also on the agendas for consideration.

Clive Heaphy, Director of Finance and Corporate Services introduced the report. He set out a number of reasons why the process for producing the statement of accounts for 2010/11 had been considerably more complex than in previous years.

Firstly, the fundamental change in the Council's financial processes which required a migration of financial information from multiple disparate systems previously in place to a single Council-wide system. In addition, the Finance Modernisation project resulted in a significant reduction in team numbers and a fundamental shift away from producing accounts locally in directorates to production via a central team.

Further, during 2010/11 the Council completed the mandatory transition of its accounting statements to comply with International Financial Reporting Standards (IFRS) which govern the way financial transactions were brought into account and how they were reported. The transition had affected both the appearance of the Council's accounts and reported balances.

He continued that whilst the timetable for the production and audit of accounts was tight than in any normal year, the combination of all of the above factors made the 2010/11 process particularly problematic. He was quite confident that the investment in time and effort now would enable significant improvements to be achieved in future with consequent reductions in audit fees. The Director continued that he formally approved the draft Statement of Accounts in line with the Accounts and Audit Regulations on 30 June 2011, prior to the start of the audit.

The Director informed the Committee about a post balance sheet event resulting from Brent Housing Partnership's (BHP) involvement in settled homes initiative. Although there would be no impact on the Council, the Director had provided BHP's auditors with assurances of the Council's support for BHP.

Mick Bowden, Deputy Director of Finance and Corporate Services gave an analysis of the key figures in the accounts and highlighted the significant changes in the balance sheet.

In welcoming the report, members expressed a view that the accounts and the statements were informative and paid tribute to the Director and his team for the sterling efforts made in presenting the accounts and statements. The Chair added that officers should consider submitting a shorter, more reader friendly version of the accounts in addition to the mandatory statements, to future meetings of the Committee.

Andrea White, District Auditor (DA) in providing a summary of her findings on the audit of the Pension Fund accounts stated that subject to the completion of her final review and audit closure, her audit was substantially complete. She proposed to give an unqualified audit opinion on the financial statements but would not issue her opinion until the audit of the Council's main financial statements had been completed as the Pension Fund statements formed part of the Council's financial statements.

The DA continued that the draft financial statements were submitted by the due date, were substantially complete and supported by good working papers in line with expectations. She added that despite the teething problems from the introduction of the Oracle system, the migration of balances to the new system was well controlled. In her view, the financial statements submitted for audit were free from material error, missing and incomplete disclosures had been adjusted by officers and overall, she had not identified any significant weaknesses in the pension fund internal controls. The DA stated that there were no material differences to the pension fund financial statements on the transition to IFRS and that she was satisfied that the pension fund financial statements had been properly compiled according to IFRS.

The District Auditor continued that the transition and migration problems experienced by Brent were a problem common to finance departments in many local authorities. She clarified that the audit trail was taking significantly longer than anticipated and due to delays, overly complex audit trails and a resultant high volume of audit queries and amendments. She continued that her audit of the council's accounts had identified six material errors in the financial statements and a significant number of non-trivial and non-material errors which the Director and his team were actively working on to resolve them. In view of that the District Auditor stated that she would not be in a position to issue her audit opinion of the council's accounts by the due date of 30 September 2011. The DA also added that she would want to complete the remainder of the council's accounts audit before issuing her opinion on value for money.

With reference to paragraph 15 of the AGR, the DA amended the areas of audit work to take account of progress made but emphasised that the following two key areas were outstanding; cash and bank; final review and closing procedures. She also asked for the following three errors to be added;

|                                |     |
|--------------------------------|-----|
| Classification error           | £9m |
| Provision for redundancy       | £2m |
| Internal debtors and creditors | £1m |

The Director of Finance in responding to the above stated that redundancy payments had been budgeted for and that an adequate provision had been made in the reserves. He tabled an amendment to the recommendations which was later agreed.

Councillor Cheese noted the significant weaknesses in internal control identified by the auditor brought about by the introduction of the new systems and asked whether the systems were trialled for effectiveness. Councillor Al-Ebadi noted that the latest reconciliation provided to audit had reduced the gross outstanding amount and wondered whether officers could complete this by October when the audited accounts were due to be published.

Mick Bowden, Deputy Director in response stated that the new system was trialled and working effectively. The issues related to the migration of information previously held in different disparate systems. He added that having dealt with the transition the current system enabled monthly reconciliations and close downs and therefore timely presentation of accounts in the future. He continued that Audit Commission were aiming for the majority of the field work to be completed by the end of the month. In response to non-trivial and non-material issues which Paul

Viljoen stated were not amended by the Council, the Deputy Director stated that those matters were agreed with the Audit Commission as not requiring adjustment and not impacting upon the financial position of the Council.

In bringing the discussion to a close, the Chair welcomed the progress made by the Council in the light of the problems resulting from the changes made. He however requested that management action plan against the DA's recommendations and the Annual Governance Report be reported to the next meeting of the Committee. He asked about the measures that the Internal Audit could take to assist with the situation. Simon Lane Head of Audit and Investigations stated that he would bring forward some of the work being done including bank and reconciliations, move resources to key financial work and benchmark with other local authorities. The Chair noted that the unaudited accounts would be published by 30 September 2011 and subject to final information being submitted to the DA by mid-October the final audited accounts would be published. With that in view members;

RESOLVED:-

- (i) that the Annual Governance reports from the Audit Commission and the letters of representation to the Audit Commission be noted;
- (ii) that the Statement of Accounts be approved for publication subject to an adjustment of £1.939m in respect of redundancy costs for which provision is contained within the 2011/12 budget subject to (iii) below;
- (iii) that if there were any further minor changes to the accounts or audit recommendations, the Chair would have delegated authority to agree and request members of audit committee be notified accordingly.

## **6. 2011 Treasury annual report**

Mick Bowden, Deputy Director of Finance and Corporate Services introduced the report which provided information to members on borrowing and investment activity, and performance compared to prudential indicators during 2010/11. The recommendations of the report which were submitted to Full Council without any further comments were also being reported to this Committee as part of the scrutiny function required under the 2009 Treasury Management Code of Practice issued by CIPFA.

The Deputy Director gave an outline of the economic and market background during 2010/1 including quantitative easing (QE), the movement of interest rates and the potential impact of defaults by Ireland, Portugal and Greece on European banks and the euro. He then drew members' attention to the level of rates charged by the Public Works Loan Board (PWLb) and borrowing activity and added that as a result of debt re-structuring, the Council was able to save around £1.5m per annum. He also drew attention to the appendices to the report that set out the Council's current outstanding loans together with yields and maturity dates.

RESOLVED:-

that the treasury management annual report and recent treasury activity be noted.

## **7. Audit Commission Progress Report**

The purpose of the progress was to brief members of the Committee on work currently being planned or undertaken by the Audit Commission. Andrea White, District Auditor in introducing the report stated that the Commission had finalised their interim report and agreed with officers an action plan which was attached to the progress report.

She advised members that she had finalised her performance review detailed in the Audit plan including a follow up review of the Council's One Council Project and summarised the key findings as follows;

- Good progress had been made on the One Council Project with effective governance arrangements in place.
- Risks existed in regards to capacity, accurate monitoring of financial benefits, transparency of revisions to financial projections and a systematic way to capture non-financial benefits at project level.

The District Auditor continued that in line with her statutory duties, she was also focussing on the following matters which had come to her attention during the course of her audit;

- Issues relating to the Council's arrangements over blue badge usage, enforcement and anti-fraud arrangements.
- Issues relating to governance and audit arrangements at a school.
- Implications arising from the review of school leases and the legality of contracts.

She confirmed that as the audit was taking longer to complete additional fees to be agreed with the Director of Finance and Corporate Services would be charged and reported to the Committee. The District Auditor then drew members' attention to the Audit externalisation schedule as set out in the report and added that although the timetable had initially slipped, contracts for 3 or 5 year terms with TUPE agreements were expected to be approved by March 2012. She added that the contracts would be divided into North London and South London sectors with Brent being in the former sector.

RESOLVED:-

that the progress report on work being undertaken by the Audit Commission be noted.

## **8. Audit Commission One Council Follow Up Report**

Andrea White, District Auditor, introduced the report. Clive Heaphy, Director of Finance and Corporate Services in commenting on the report stated that the progress report was the Council's four year ambitious forward looking transformation programme which aimed to deliver service improvements and cost savings of £94m by 2015. He advised the Committee that the Council had made positive progress towards implementing the One Council Programme over the last

12 months. Governance arrangements were in place and working effectively with regular monitoring which allowed risks, costs and benefits to be identified at corporate and individual project levels.

The Director emphasised that capacity remained a risk to the success of the individual programme and in recognition of that the Council was addressing it through internal appointments as well as lessening its reliance on external consultants. He referred to the following list of recommendations and added that its adherence was paramount in achieving an overall success.

- Continue to monitor capacity at project level given the need to deliver significant number of projects in 2011/12 to achieve the savings targets.
- Review how project costs and financial benefits were reported at corporate and project level.
- Specify and set out non-financial benefits set out at the start of projects.
- Monitor non-financial benefits in a meaningful and accurate way as projects progressed.

RESOLVED:-

that the Audit Commission's one Council follow up report be noted.

## **9. Annual Governance Statement**

This report set out the revised Annual Governance Statement for publication as required by the Accounts and Audit Regulations 2003.

Clive Heaphy informed the Committee that this was the final version of the AGS, an initial draft having already been approved at the previous committee meeting. Two significant alterations had been made; the inclusion of issues presented by the implementation of a single accounting system across the council which had been discussed during the earlier items on the agenda. The second was the inclusion of a paragraph concerning the Settled Homes Initiative in Brent Housing Partnership. During the course of the year, Brent Housing Partnership (BHP) had been purchasing homes for temporary accommodation under the settled homes initiative backed by loans of more than £54m from the Council. Whilst the scheme appeared to be operating well, a number of problems had arisen in respect of out-of-borough purchases which suggested that in this particular area, internal controls including financial controls were not as robust as required. Work was being undertaken to strengthen the controls and ensure that no repetition could take place in the current or future years.

Clive Heaphy then sought member approval for the AGS to go forward to the Leader and Chief Executive for signature.

RESOLVED:-

that the Annual Governance Statement approved.

#### 10. **Internal Audit Progress Report**

Simon Lane, Head of Internal Audit and Investigations introduced the report that set out a summary of the work of Internal Audit for the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> August 2011 and provided further detail together with the assurance ratings and priority 1 recommendations for limited assurance reports and management responses.

He advised the Committee that a number of systems audits had been completed and were in progress across the Council including the new Project Management Framework being developed and implemented by Regeneration and Major Projects. Computer audit work was also progressing.

Simon Lane advised the Committee that the final key area of work was in relation to schools which formed a significant part of the annual coverage. A number of reports for Secondary schools audited in 2010/11 were still in draft due to a number of secondary schools failing to provide management responses to draft reports.

As was the case in 2010/11, key areas of weakness identified across several of the schools audited so far in 2011/12 related to compliance with the Financial Regulations for Schools around high value procurement and leasing arrangements. In addition, issues were identified in respect of the salary levels of Head teachers and other members of the Leadership Teams in the context of non-compliance with the national School Teachers Pay and Conditions Document 2010 (STPCD).

In welcoming the progress report, the Chair drew members' attention to the following 4 reports that were long overdue from 2010/11;

- Network infrastructure (IT)
- Corporate Property Service Model
- Michael Sobell Sinai school
- Our Lady of Lourdes

With reference to the pie chart representing recommendations implemented, the Chair advised that early warning signs be given to those service areas which had not fully implemented the recommendations and possibly the post title of the head of service be named in the report. He noted that lack of resources was suggested as the inhibiting factor, however, officers needed to maintain a sharp focus and keep the Committee fully informed of developments.

RESOLVED:-

that the progress made in achieving the 2011/12 internal audit plan be noted.

#### 11. **Any other urgent business**

None.

12. **Date of next meeting**

It was noted that the next meeting would take place on 15 December 2011.

The meeting closed at 9.40 pm

S WOOD  
Chair