



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Thursday, 17 December 2009 at 7.30 pm

PRESENT: Councillor Cummins (Chair), Councillor HM Patel (Vice-Chair) and Councillor Butt

1. **Declarations of Personal and Prejudicial Interests**

None declared.

2. **Minutes of the Previous Meeting held on 24 September 2009**

RESOLVED:-

that the minutes of the previous meeting held on 24 September 2009 be approved as an accurate record of the meeting.

3. **Matters Arising**

None.

4. **Audit Commission's Progress Report**

Gary McLeod (Audit Commission) introduced the report and summarised the work undertaken by the Audit Commission since the last report to the Committee in September 2009. He advised Members that work on Use of Resources had been completed, with a final score of three achieved for Managing Finances and two for Governing the Business and Managing Resources respectively. Other activities included completion of the Accounts memorandum, certification of 11 grant claims prepared by the Council and the agreement of the 2008/09 Annual Audit Letter. Work on the 2009/10 audit was underway, and the draft supplementary opinion plan would be submitted at the next meeting following a review of organisational and system level risks. Gary McLeod advised that planning for the 2010/11 audit would start in the next few weeks and views of Members on any areas of risk where external audit work could be beneficial were welcomed.

Gary McLeod then referred to the draft Final Accounts report for 2008/09 which detailed the main finding of the audit completed on 29th September 2009. Discussion had taken place with officers and would continue into the New Year prior to finalisation.

Referring to the Use of Resources scores, the Chair commented that some scores were lower than expected and he enquired whether this was attributable to some

issues concerning a particular secondary school and because of deposits that had been made to two Icelandic banks that had subsequently collapsed. Furthermore, he asked whether the scores attained reflected present or past performance. The Chair sought comparisons with how the Audit Committee were performing compared to equivalent committees in other local authorities. He enquired what the responsibilities of the lead members were with regard to performance.

In response, Andrea White (District Auditor, Audit Commission) advised that issues concerning a secondary school and the Icelandic bank deposits had been taken into consideration, however other wider issues had also contributed to the assessment. She affirmed that a rating of two signified an adequate performance and that the appropriate arrangements were in place. A three rating signified consistently high performance across the Council and a proactive approach being taken. Members heard that appropriate arrangements had been made with regard to the Audit Committee's role, and its efforts would be enhanced by taking a more proactive stance, further consideration of training needs for Members, scrutinising specific issues such as limited assurance and following up on progress on recommendations that had been agreed.

Andrea White explained that Use of Resources reflected the priorities of the Comprehensive Area Assessment (CAA) which included achieving best value and a focus on delivering partnership working. Areas for improvement had been highlighted by the Audit Commission, such as increasing stakeholder involvement, a more consistent approach to systems and process, provide more examples of effective partnership working and improving data quality. It was noted that the Council's Transformation programme would impact more positively in future as the programme comes to fruition. Members heard that the purpose of the Audit Commission's report was to assess how local authorities monitored their performance and Councils needed to focus on outcomes. Performance management systems should be council wide and this included lead members playing a role.

Duncan McLeod (Director of Finance and Corporate Resources) added that there had been active dialogue with the Audit Commission and the suggestions made had been helpful. There was a need to raise standards in a number of areas and Duncan McLeod stressed that management of resources was a much wider issue than financial considerations and the whole Council needed to be involved.

The Chair thanked the Audit Commission for their input and noted the suggestions that had been made.

5. Treasury Management Report

Martin Spriggs (Head of Exchequer and Investment, Finance and Corporate Resources) introduced the report and highlighted the main issues raised in the draft guidance on local authority investments that had been published by the Department of Communities and Local Government (DCLG), including:-

- The need for clear policies on duration of loans and the share of the portfolio that can be lent for longer periods
- Local authorities should not rely solely on credit ratings and should consider other information

The Council had considered the guidance issued by the DCLG and these would be taken into account for the Budget report. Martin Spriggs reported that there had also been revisions to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management within the past two weeks, including a need for a mid year review of the annual treasury strategy, the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies and that Members of the Audit Committee have access to appropriate training opportunities.

Martin Spriggs then updated Members on the Icelandic bank deposits, stating that the administrators of Heritable Bank had made their first repayment of £1.6m in July 2009 and a second payment of £1m was expected in December 2009. Within the last few days, the Winding-Up Board for Glitnir Bank had announced that local authorities could not be considered secured creditors. However, councils were likely to challenge this and legal advice received suggested that local authorities were in any case considered secured creditors under Icelandic Law. Martin Spriggs reminded the Committee that the Council had been using a severely reduced Lending List since October 2008 in order to reduce risk. However, it was felt that the financial system was more stable now than at the same point last year, and for this reason one of the proposals included increasing the duration of deposits in order to increase return opportunities. Martin Spriggs then drew Members' attention to the proposals as set out in paragraph 3.10. He also circulated an additional paper detailing recommendations and responses to a House of Commons Select Committee report on local authority investments in Icelandic banks.

During discussion, Councillor Butt enquired whether the Council's proposals to request permission to capitalise £2m over 25 years was a standard request and would this have any effect on future budgets. He also sought further information on future returns from Heritable Bank.

Although the Director of Finance and Corporate Resources has delegated authority to appoint the treasury adviser, in the interests of transparency the Chair requested that the Audit Committee be consulted on the outcome of the tendering for a treasury adviser. He sought further details with regard to the requirement under the draft DCLG Guidance that the Treasury Strategy be agreed by Full Council and asked whether it would be considered by the Audit Committee and if so, that it be given sufficient time to examine the Strategy prior to it going to Full Council. The Chair enquired whether the Council would be asked to contribute towards any legal challenge in respect of Glitnir Bank. The question was also posed as to whether the Council would initially continue with low interest deposits even after interest rates rose again in order to minimise risk.

In reply, Martin Spriggs advised that the request for capitalisation of £2m over 25 years was a middle range option offering least risk to the budget and the usual period was for 50 years. He agreed to report back to the Audit Committee the outcome of the tendering for a treasury adviser and confirmed that the Treasury Strategy would be presented to the Committee before it went to Full Council. It was not yet known whether the situation with regard to Glitnir Bank would result in legal proceedings and if so what court costs would be involved. Martin Spriggs advised that in order to minimise risk, lower interest deposits would initially be pursued in

the event of a rise in interest rates and this would be subject to review depending on changing economic circumstances. The recent review of the Lending List had concluded that higher interest deposits were still too large a risk. The Council continued to lend only to high quality organisations and of the 32 banks where deposits had been made, only three, all Icelandic, had collapsed. Martin Spriggs confirmed that following a further return from Heritable Bank in December 2009, a further one was due early in 2010.

Duncan McLeod added that care would be given when putting together the municipal calendar of meetings to ensure that there was sufficient time for the Audit Committee to consider the Treasury Strategy prior to it being considered by Full Council.

Officers agreed to a request made by the Chair that training be provided to Members of the Committee in respect of the Treasury Strategy.

RESOLVED:

- (i) that the steps taken either previously or in response to the Department of Communities and Local Government draft guidance and revised CIPFA Code be noted; and
- (ii) that proposals to amend the Lending List as set out in paragraph 3.10 be noted.

6. Internal Audit - Progress Report for April 2009 to November 2009

Simon Lane (Head of Audit and Investigations, Finance and Corporate Resources) introduced the report summarising progress since 30th September 2009. He confirmed that internal auditing was on target as set out in the Internal Audit Plan for 2009/10. Members heard that a substantial amount of time had been spent undertaking Financial Management Standards in Schools (FMSIS) assessments in primary schools and this was also on target, with only three primary schools remaining to be assessed. Simon Lane advised that 61% of the Plan had been completed to date, up 8% from the same stage last year. He drew Member's attention to the Summary of Assurance Opinions Direction of Travel, however the number of audits needing to be completed in the remaining third of the year was of some concern.

The Chair enquired to what extent the situation with limited assurance was behind schedule. He also asked if the design of controls in place were Council-wide. With regard to a school failing an FMSIS assessment, the Chair asked if there were any financial implications or risk to the Council.

In reply, Simon Lane advised that progress with the limited assurance opinions issued across the Council was quite far behind schedule and was a cause for concern, however there had been an improvement since the last report. Members heard that as far as financial controls and regulations were concerned, systems were in place Council-wide. Overall, the financial systems of control were quite strong, although there were a few areas that could be improved, with one school failing the FMSIS assessment. In the context of wider system of controls, separate systems were commonplace, with looked-after children having specific systems of

control in operation. Simon Lane explained that because of the diverse nature of the Council's work, it would not be possible or practicable to have a uniform system of control for every Council activity.

Phil Lawson (Deloitte) advised that a limited opinion meant that some weaknesses had been identified, although not necessarily of a financial nature, which puts the client's objectives at risk. The system of controls for substantial opinions overall was sound but not always consistent. He added that some system of controls lacked a coherent framework that they could be based upon.

Aina Uduehi (Audit Manager, Audit and Investigations, Finance and Corporate Resources) added that the school failing its FMSIS assessment had done so because standards had not been met in a significant area and it was not felt that the school could implement the measures required within the designated 21 days. There was an element of theoretical financial risk to the Council although any impact would not be immediate and the school had been made aware of this. In addition, the Education Finance Team were advising the school and providing appropriate training. Members noted that the same school was due to be revisited by the Audit and Investigations Teams next year.

RESOLVED:

that the progress made in achieving the 2009/10 Internal Audit Plan be noted.

7. Use of Directed Surveillance

Simon Lane introduced the report and advised that the Home Office was in the process of revising its code of practice on the use of surveillance and it was likely that as a result of this that the level of authorisation required by local authorities to use surveillance would be raised to the departmental director. He then drew Members' attention to the number of surveillance operations by service units for 2007/08, 2008/09 and from April 2009 to September 2009. Members noted that the Audit and Investigations Team had conducted 45 surveillance operations since April 2003 where cases had been closed, of which 16 resulted in no further action, six in criminal convictions, 12 in the recovery of Council properties, five in staff dismissal and six in some other form of sanction. Simon Lane advised that use of surveillance was a last resort measure and that there were a number of safeguards in place to ensure appropriate use. Members noted that at the request of Councillor Matthews (Lead Member for Crime Prevention and Public Safety), an update on directed surveillance would be provided to the Audit Committee every six months.

During discussion, Councillor Butt enquired about the length of period needed to implement a decision to undertake surveillance and were there instances of applications for permission to undertake this being refused. He also enquired what action could be taken against persistent anti-social behaviour offenders.

The Chair sought details of what had triggered inspections of the Council's use of surveillance by the Office of Surveillance Commissioner. He commented that some local authorities had received criticism for using surveillance to identify those responsible for anti-social activities such as dog fouling, and in view that there was support from residents to take action against such behaviour, he asked what other methods could be used to take action against the culprits.

In reply, Simon Lane advised that the Office of Surveillance Commissioner inspected local authorities every two years and in the four inspections of the Council undertaken, no fundamental weaknesses in the Council's approach or any specific concerns with operations had been identified. With regard to surveillance use concerning dog fouling, he advised that the Local Government Association would not regard this offence as serious enough and it would need to be tackled by a different method. However, CCTV could be justified in areas where there was persistent nuisance which could include a number of anti-social activities and an article in *The Guardian* newspaper had supported this view. In addition, intelligence from other service areas may also be available. Simon Lane advised that surveillance was used only when all other methods were exhausted and required the authority of the director of the service area. Members noted that there had been instances where requests to use surveillance had been refused. In urgent situations, the authorisation process could be expedited, but the request would require a high level of detail.

Duncan McLeod added that the Office of Surveillance Commissioner carried out very thorough inspections undertaken by senior officials and that comprehensive feedback was received. Members noted that use of surveillance was well-regulated and that the director of a service area needed to provide detailed justification of using surveillance.

RESOLVED:-

that the report on Use of Directed Surveillance be noted.

8. **Date of Next Meeting**

It was noted that the next meeting was scheduled to be held on **Wednesday, 3 March 2010 at 7.30 pm.**

9. **Any Other Urgent Business**

None.

The meeting closed at 8.35 pm

M CUMMINS
Chair