



# **LONDON BOROUGH OF BRENT**

## **MINUTES OF THE AUDIT COMMITTEE**

**Wednesday, 15 June 2011 at 7.30 pm**

PRESENT: Mr Wood (Chair) and Councillors Van Kalwala and S Choudhary

Apologies were received from: Councillors Al-Ebadi and Ashraf

### **1. Introduction of Independent Chair**

Mr Stephen Wood, the independent Chair, was introduced to the Committee and was welcomed to his first meeting of the Audit Committee.

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

None at this meeting.

### **3. Deputations**

None at this meeting.

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

RESOLVED:-

that the minutes of the previous meeting held on 22 February 2011 be approved as an accurate record of the meeting.

### **5. Matters arising**

With reference to minute 4, the Chair requested an update on the progress report regarding Copland Community School. Simon Lane, Head of Audit and investigations reported that aspects of the Copland Community School were covered in a report elsewhere on the agenda. He added that a more detailed report on Copland Community School would be submitted to a future meeting of this Committee.

In respect of minute 6, the Chair enquired as to whether the majority of the recommendations set out in the action plan had been achieved. Clive Heaphy, Director of Finance and Corporate Services stated that officers were on track to achieve the majority of the recommendations to ensure that the Council's accounts were produced by 30 June 2011. Paul Vijloen, Audit Manager from the Audit Commission's office expressed satisfaction with the Council's progress to date and

that he was confident that the accounts would be delivered by the deadline date of 30 June 2011.

## **6. Audit Commission documents**

The Committee gave consideration to a report produced by the Audit Commission in their role as the Council's auditors. Paul Vijloen Audit Manager set out the purpose of this progress report which was to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission. He added that the Commission had finalised the interim audit, agreed the accompanying report and were in the process of finalising the action plan with officers. The Audit Manager gave an outline of the contents of the interim report which included material financial systems, detailed review of the IT control environment, testing on selected systems, early substantive testing and review of early revised IFRS financial statements and working papers.

In drawing members' attention to the results of his testing as set out in appendix 1 to the report, Paul Vijloen stated that the systems had operated as documented and that there were no major weaknesses in the design of the systems that would lead to a material error in the financial statements, except in the following areas:

- (i) controls over journals did not operate as documented throughout the year;
- (ii) evidence to support authorisation of payment or BACS payments were not always retained or approved in accordance with the Council's written procedures;
- (iii) the introduction of the new Oracle system during the year resulting in the need; and
- (iv) reconciliations between the council tax and NNDR systems, bank accounts and cash receipting systems which were in progress throughout the year due to the transition to the new Oracle system. These reconciliations were finalised at the year end.

Paul Viljoen undertook to perform additional substantive testing where he was not able to gain the planned controls assurance including the general ledger (journals), accounts payable and accounts receivable systems. He continued that the fee for the additional work would be offset against audit efficiencies gained as a result of a more centralised and efficient accounts systems. He undertook to keep this under review at the final audit visit. Although he did not identify major weaknesses, he drew members' attention to recommendation R5 as set out in the appendix to the report. He continued that in his view the Council had complied with International Financial reporting Standards (IFRS) without significant weaknesses and that errors identified had already been brought to the attention of management to be resolved.

The Audit manager pointed out that the Council was yet to complete its IFRS restatement work or provide supporting documentation in respect of school leases, its asset valuation and group undertakings including the consolidation of Brent Housing Partnership (BHP). Consequently, he had been unable to review these areas as part of the early testing, as previously planned and agreed with the Council. This would now form part of his final audit visit.

Councillor Choudhary enquired about the merits of the new Oracle system in view of its installation expense and the problems that had resulted from its use. The Director responded that the Oracle system experienced initial teething problems which had been resolved and had proved to be more efficient. He added that the current system was more superior to the previous one which involved maintaining several systems with the associated inherent problems in maintaining several systems. Andrea White, District Auditor added that despite its initial difficulties, efficiencies had been noted in the use of the Oracle system.

In responding to the outstanding issues on IFRS restatement, the Director informed the Committee that the council had no direct control over the actions of the governing bodies of schools and whilst every effort was being made to support those schools and obtain the relevant information from them, the situation was far from perfect. The Chair pointed out that there was no indication on timescale and status of recommendations made by the Commission. Paul Vijloen clarified that the Audit Commission had passed on the details including timescales and status of each recommendation to the relevant Deputy Director and an agreed action had been put in place.

In reference to the audit fee for 2011/12 of £439,200, Andrea White, District Auditor stated that the fee did not include inflationary increase in 2011/12 and reflected a cut in scale fees and a further cut of 3% for local authorities, police and fire rescue authorities. She continued that variations in her fee scale would only occur where there her assessments of audit risk and complexity were significantly different from those identified in which case she would issue a separate audit plan detailing the risks identified and discuss the situation including detailed project specification with the Director of Finance and Corporate Services.

The Chair enquired as to the future of the Audit Commission and requested an update with timescales. Andrea White informed the Committee that the Department of Communities and Local Government (DCLG) had commenced consultation on the future of the Audit Commission which would close on 30 June 2011. In addition the DCLG had written to all Local and County Authority Chief Executives setting out practices and recommending outsourcing of audit functions. She added that details of the scheme were yet to be fleshed out and it was likely that the Audit Commission would form a company with a strategic partner and put in a bid to the DCLG. Members noted that the current contracts would end in 2012 and that the new outsourcing arrangements would commence from 2013. Clive Heaphy undertook to circulate the draft response by the Audit Commission to all members of the Committee prior to its submission to the DCLG.

In response to a query by Councillor Choudhary on how the District Auditor arrived at her fees, Andrea White clarified that the fee scale was set by the Audit Commission in accordance with audit risks and having allowed for a 10% reduction for all Councils. This advice was echoed by Clive Heaphy who added that the Audit Commission was under limited flexibility to change the scale of fees under the current regime.

RESOLVED:

that the report be noted.

## **7. Treasury management activity**

Clive Heaphy Director of Finance and Corporate Services introduced the report which updated members on treasury management activity. Members noted that whilst interest rate activity had remained benign, inflation was likely to continue to rise and that the rates charged by the government lending agency, The Public Works Loans Board (PWLb) on short and long terms loans had been increased. The Director added that as short term borrowing built up, the prudent option was to borrow longer term (eight to ten years) from the PWLB to minimise the Council's vulnerability to movements in short term interest rates.

Members also noted an important development in a ruling by the Icelandic District Court that the local authority deposits with Glitnir bank were to be treated as preferred creditors, and should be repaid in full. The Director undertook to update members about the eventual outcome. The Director continued that the administrators for Heritable Bank continued to make regular (quarterly) payments as they recovered amounts owed to Heritable and that around 85% of the original £10m deposit would be recovered.

In the discussion that followed, Councillor Van Kalwala enquired about the impact of BHP optimisation on the Council's loans. In responding, the Director stated that there were several factors to be considered in BHP optimisation including £72m owed to the Council by the ALMO. The Chair asked how the Council would manage short and long term interest rates particularly the long term borrowing for the Civic Centre. The Director responded that he was confident that long term borrowing rates would not rise.

RESOLVED:

that the recent treasury activity as set out in the report be noted.

## **8. Internal Audit Plan 2011/12**

Simon Lane Head of Audit and Investigations presented a report prepared by the council's in-house team in partnership with Deloitte & Touche Public Sector Internal Audit Ltd that set out the internal audit plan for the 2011/12 financial year. He informed the committee that the plan had been drafted after meetings with departmental managers with contingency built in to allow a degree of flexibility. In drawing attention to the appendices to the report, Simon Lane informed the committee that where possible, the proposed number of days against each audit, together with a high level indication of the proposed coverage, the initial key contact, and an indication of the proposed timing where this was known had been included. He was confident that all issues identified in the Annual Governance Statement had been covered. Phil Lawson of Deloitte Touche Public Sector Internal Audit Limited added that the Audit Needs Analysis (ANA) at both corporate and departmental levels, attached as appendix 2 to the report, was both comprehensive and satisfactory.

Simon Lane advised the Committee that the BHP Plan would be presented separately to their Audit & Finance Sub-Committee for approval before being

presented to the Audit Committee for information at the next scheduled meeting. Members noted that 150 days had been allocated to schools' audit to take account of emerging risk areas and areas of weakness identified across schools.

In welcoming the report, members noted that the One Council project focussed on key projects of the council and with that in view, requested a report on One Council Project to the next meeting in September.

RESOLVED:

- (i) that the internal audit plan 2011/12 be noted;
- (ii) that the Director of Finance and Corporate submit a report on the One Council Project to the next meeting in September 2011.

## **9. Final Internal Audit Progress Report 2010/11**

Simon Lane, Head of Internal Audit and Investigations introduced the report which summarised the work of Internal Audit for 2010/11 together with update on progress since the previous report to this Committee. He informed the committee that of the 1,201 internal audit days, Deloitte Touche Public Sector Internal Audit Limited were allocated 941 (928 delivered) and the in-house team allocated 260 (250 delivered). Members were advised that out of the 41 final reports issued during 2010/11 for which Assurance report was due, there were 29 'Substantial' assurance opinions and 12 'Limited assurance opinions, excluding Brent Housing Partnership which reported separately to the BHP Audit & Finance Committee. Members noted that majority of limited assurance opinions were given to school audits, debt management, self-directed support and Oracle system.

This view was echoed by Phil Lawson of Deloitte Touche Public Sector Internal Audit Limited who added that there had been an overall improvement in all areas over the previous year. He added that in all audits with limited assurance opinions and wherever recommendations were made, a follow-up meeting was arranged with management to verify management self-assessment until full implementation was confirmed.

The Director acknowledged the teething problems over the oracle system but pointed out that such problems were anticipated in a transition to a new system. He added that the main focus was to ensure that suppliers were paid with the minimum delay. Phil Lawson advised the Committee that he would give an update on issues raised at the next meeting.

RESOLVED

that the progress made in achieving the 2010/11 internal audit plan be noted.

## 10. **Annual Governance Statement**

The Committee considered a report that set out the proposed Annual Governance Statement for inclusion in the council's accounts for 2010/11 as required by the Accounts and Audit Regulations 2003.

In introducing the report, Clive Heaphy, Director of Finance and Corporate Services set out a number of significant governance issues which had been identified, a summary of the actions taken to date and the progress made against those issues raised in the 2009/10 Annual Governance Statement.

The Director continued that the One Council programme which was the key area of focus for the Council going into 2011/12 had continued to progress during 2010/11 with robust governance arrangements in place. Delivery against the programme was fundamental to the financial health of the Council and to the delivery of efficient and effective services to the public. The Director pointed out that one of the key drivers of the One Council programme was the need to achieve significant savings over the period 2010-2014. The situation had been made even more difficult as a result of the cuts made by central Government during the year, coupled with additional demands on services. Out of the required savings of £41.7, £21million would be found from the One Council programme, leaving the remainder to be found through other means including staffing reductions. He stressed that consultation with residents and all other key stakeholders would continue to assume a significant importance during this period.

The Director advised the Committee that the Council had made a significant progress with the construction of the new civic centre which was expected to be in use by March 2013. It would be the "greenest" building in the country, and would deliver net savings of approximately £2million per year through reduced running and maintenance costs. He also advised members that the Government's decision to abolish the Building Schools for the Future (BSF) programme during 2010/11 had had a significant impact on the Council's resources. As this represented a key area of challenge which needed to be addressed, actions were being determined to avoid the Council failing to meet its statutory duty to ensure sufficiency of school places so as to avoid the potential of approximately 188 unplaced Reception pupils for September 2011. On a plus note, the Director drew members' attention to the Treasury Management Strategy and Annual Investment Strategy for 2010/11 and added that about 50% of the original investment with Heritable Bank had been recovered and that the recovery of funds deposited with Glitnir (Icelandic) Bank was progressing satisfactorily.

He continued that Environment & Neighbourhoods recognised monitoring and forecasting of income as a key risk, together with the actual level of income received in key areas including parking, planning, land charges and building control. Waste management costs had also been difficult to forecast. This had been identified in previous years and work had been progressing on developing more sophisticated models of the financial performance in those areas. Further work would be needed though in 2011/12, both in respect of waste management and the parking account.

Clive Heaphy highlighted the main areas of concern including significant budget overspend in the service for children with disabilities and children's Social Care Placements within Children & Families. In addition to the above, leasing arrangements had been entered into by some schools without the review and approval of the Council's Director of Finance. There were also control weaknesses in relation to the education capital portfolio, following the transfer of responsibility from Children & Families to the newly formed Regeneration & Major Works department. In outlining the measures that were being taken to address the above concerns, the Director stated that a joint governance action between Children & Families, Finance & Corporate Services, and Legal & Procurement was being taken to address the issues with leasing. In concluding the presentation, the Director added that the Council proposed over the coming year to take steps to address the above matters to further enhance our governance arrangements. He added that the steps identified would address the need for improvements that were identified in our review of effectiveness and would monitor their implementation and operation as part of the next annual review.

Councillor Choudhary expressed concerns about the consistent budget overspends on Children & Families and Adult Social Care and enquired about measures to ensure that those did not recur. The Director responded that those areas had traditionally suffered from systemic under-funding and that their budgets had not been increased in past years to cope with service demand. He added that in addition to robust monitoring measures, the Council was spending on essential services and maintaining a grip on administrative costs. Councillor Van Kalwala noted the likely impact of the changes to the benefit system on the Council and enquired as to whether appropriate measures were being put in place to minimise the impact. In response, the Director stated that the council was fully aware of the impending changes but that the Government had yet to confirm many of the critical details in the future.

The Chair noted that BHP could represent organisational risks with potential impact on pension funds. In responding to this, the Director informed the Committee that specific risks associated with 'opt outs', monitoring and control and rent arrears were being addressed. Andrea White, District Auditor, added that she expected the Council to make the changes very quickly and that this would form part of the audit to be reported to the Committee at its meeting in September 2011. In bringing the discussion to a close, the Chair suggested the inclusion of key management risk and risk management strategy on the agenda for the next meeting.

**RESOLVED:**

- (i) that the report Annual Governance Statement be approved subject to minor amendments by the Director of Finance and Corporate Services to the internal audit annual report and funding arrangements;
- (ii) that the Director of Finance and Corporate Services submit a report to the next meeting on key management risk and risk management strategy.

## 11. **Annual Audit Report 2010/11**

The annual report from the Head of Internal Audit and Investigations included an opinion on the overall adequacy and effectiveness of the Council's internal controls and presented a summary of the audit work undertaken during the year. In introducing the report, Simon Lane, Head of Internal Audit and Investigations stated that he had considered all of the work conducted by internal audit staff, the council's audit contractor, Deloitte and Touche Public sector Internal Audit Ltd and fraud investigation staff for the year ended 31 March 2011 and work undertaken post year end. He continued that in his opinion, the Annual Governance Statement was robust and complied with CIPFA guidance and that with the exception of those issues set out in the next paragraph, the controls in place in those areas reviewed were adequate and effective and weaknesses identified were being addressed by management and followed up by Internal Audit.

In relation to Oracle, the Council's single accounting system, Simon Lane stated that he had recently issued three draft reports with limited assurance opinions. He accepted that as a new system implemented in 2010/11, there were always likely to be weaknesses identified in such a major change, a situation which he was confident management would address. He also expressed concerns about the apparent lack of financial control within a significant minority of the council's schools and the general approach to internal audit findings. Whilst schools were responsible for their own budgets, they were required to adhere to both legal requirements and to financial regulations issued by the council, thus ensuring that public money was properly spent and accounted for.

A number of schools are demonstrating a lack of compliance with basic procurement regulations, thus placing schools at risk of failing to achieve value for money and at risk of potential legal challenge where EU procurement regulations apply. Thirdly, a number of schools were failing to adhere to the national rules concerning teacher's pay, specifically in relation to head teacher pay being outside the prescribed bandings determined by the school size. Although, in certain circumstances schools were permitted to pay above the maximum group range, he considered that in a number of cases school governing bodies were paying above the ranges set out within the national conditions document to facilitate incremental increases in pay once the natural pay cap, relative to the size of school, had been reached. This was further exacerbated by Governing Bodies not always being diligent in their recording of the reasons for granting permission to exceed to cap thus placing the school at risk of challenge.

The Chair sought further information on guidance that had been put in place to assist schools to work towards achieving substantial assurance. Aina Udeihi informed members that a range of measures including governors' support services, frequent meetings with Children & families finance officers and the appointment of dedicated procurement officer were some of the measures put in place to assist schools.

Members noted that the Accounts and Audit (amendment) Regulations 2006 placed a further requirement on the Council to, at least once in each year, conduct a review of the effectiveness of its system of internal audit. Simon Lane stated that CIPFA were yet to issue guidance on how such a review would be undertaken although some authorities had opted to employ consultants to undertake the review;



others used a peer review process whilst some relied on their audit committee. The District Auditor added that her team were not required to undertake internal review but to make assessment of the control environment as part of the Annual Governance report highlighting any significant weakness. Members agreed with the view expressed by the Chair that there was no merit in employing external consultants.

RESOLVED:

that the internal audit annual report for 2010/11 be noted.

12. **Any other urgent business**

None at this meeting.

13. **Date of next meeting**

The next meeting will be held on Thursday 22 September 2011 at 7:30pm.

The meeting closed at 9.55 pm

S WOOD  
Independent Chair