



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Wednesday 20 March 2013 at 7.30 pm

PRESENT: Mr Stephen Wood (Chair) and Councillors Al-Ebadi, Cummins and Harrison (in place of Van Kalwala)

Also present: Councillors S Choudhary and R Moher

Apologies for absence were received from: Councillor Van Kalwala

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

None.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 9 January 2013 be approved as an accurate record of the meeting.

3. **Matters arising**

Certification of grants and returns 2011-12

The Chair enquired as to whether officers had raised with members of the Budget and Finance Overview and Scrutiny Committee, greater clarity about the reasons and levels of the Council's reserves. Mick Bowden, Deputy Director of Finance confirmed that the relevant report had been circulated to all members of that Committee and that reserves had been discussed at the February meeting of the Committee.

2012-13 Mid-year treasury report

Councillor Cummins noted the fluctuations in the pound and enquired whether it was still profitable to have the distribution currencies from the Icelandic banks held in Icelandic kroner. The Deputy Director of Finance responded that this would not necessarily be financially disadvantageous as the reserves would attract 3.4% interest as long as they were held in Icelandic kroner. However, the Council would look to recover the sums as soon as possible.

4. **Deputations**

None.

5. **External audit plan 2012-13**

The Committee received a report which supplemented KPMG's Audit Fee Letter presented to the Committee in August 2012 and which described how KPMG would deliver audit work for the Council.

Steve Lucas, Senior Manager of KPMG in introducing the report highlighted a number of significant risks identified in their audit which included property, plant and equipment; pension liability and pension costs; private finance initiative (PFI). He continued that the above areas would present complex accounting challenges for which KPMG would review the controls and arrangements that the Council had put in place to address them. He also brought to the Committee's attention additional risks identified on Housing Revenue Account, Carbon Reduction commitment and exit packages which resulted from changes to the Code of Practice on Local Authority Accounting. KPMG would review the arrangements that the Council had in place however, the Council would be required to ensure that the above items were accounted for in its 2012/13 financial statements appropriately.

Members heard that the Council's finance department could face two major challenges during the period the financial statements were being audited due to the intended office move to the civic centre and the new IT system which was supposed to be operational from 1 August 2013. Steve Lucas added that whilst plans were being made as to how the workload would be managed, the Council would need to demonstrate that the quality of its financial statements, working papers and audit responses did not suffer. He continued that KPMG would discuss arrangements and timetabling with officers and plan their work to help avoid bottlenecks and swiftly bring to the attention of the Deputy Director of Finance any consequent problems identified. KPMG would also review the Council's assessment of any potential liabilities arising from its savings plans against the Code and would consider the Council's progress made against recommendations to review and update its Anti-Fraud and Corruption Policy and options to meet the rising demand for school places.

In respect of the audit fee, Steve Lucas informed members that since it was presented to the Committee, a further risk relating to appointment and exit package for senior officers had come to light for which an additional fee of £12,000 had been agreed with the Council. He clarified that this involved the exit packages for the former Chief Executive and Director of Finance and Corporate Services, brought to KPMG's attention by a member of the public. This work was scheduled to commence in April 2013. Steve Lucas added that KPMG had not been alerted to further exit packages which would require additional work.

RESOLVED:

that the external audit plan 2012-13 be noted.

6. **Annual governance report - progress on action plan**

The Committee received a report from the Deputy Director of Finance which set out progress against the recommendations in the Annual Governance Report (AGR).

Mick Bowden, Deputy Director of Finance updated the Committee on progress made since the report was presented on 9 January 2013, adding that the overall plan for the production of the statement of accounts had been produced and shared with KPMG. He continued that individual finance teams had also prepared their detailed timetables and that progress made would be monitored closely during the process. He drew members' attention to the appendix attached to the report that set out the latest position on each recommendation, highlighting that the procurement savings for 2013/14 were on track to be exceeded.

RESOLVED:

that the progress report in relation to the action plan be noted.

7. Treasury management strategy 2013-14

The Committee received an information report on the Treasury Management Strategy for 2013/14, an extract from the Budget report approved by the Council on 25 February 2013.

The Deputy Director of Finance informed the Committee that interest rates were forecast to continue the trend of the last few years and would remain low for even longer, possibly remaining at 0.5% until 2016 given the outlook for limited economic growth and the continued austerity measures. He continued that the Authority would reappraise its strategies from time to time in response to evolving economic, political and financial events. Members noted that the Authority had £95.5m exposure to LOBO loans (Lender's Option Borrower's Option) of which £25m can be "called" within 2013/14. Those loans presented a potential refinancing risk to the Authority since the decision to call a LOBO was entirely at the lender's discretion. Any LOBOs called would be discussed with Arlingclose, the Council's treasury management adviser, prior to acceptance of any revised terms.

RESOLVED:

that the treasury management strategy for 2013/14 be noted.

8. Internal audit progress report

The Committee considered a report that summarised the work of Internal Audit and Investigations Team from 1 April 2012 to 28 February 2013 and provided further details of the work together with assurance ratings of reports issued.

Simon Lane, Head of Audit and Investigations informed the Committee that the Internal Audit Plan for 2012/13 comprised 1,200 days, of which 905 had been allocated to Deloitte Touche Public Sector Internal Audit Limited, and 295 to the in-house team. A total of 1004 days had been delivered against the overall Plan, made up of 761 Deloitte PSIA days and 243 days in-house days. This represented 84% of the Plan. He drew members' attention to the appendix to the report that set out the status of all projects from which it was noted that substantial assurance reports were received particularly for schools. Members heard that to date, the social housing fraud team had recovered 44 properties and investigations into

internal fraud cases had resulted in 4 officer dismissals and 3 who resigned or left prior to disciplinary action being taken.

In welcoming the progress report, the Chair observed that the progress made within the current economic climate was quite remarkable and paid tribute to officers within the Finance and Audit teams.

RESOLVED:

that the progress made in achieving the 2012/13 Internal Audit Plan and the review of fraud work be noted.

9. **Corporate risk register**

The report from the Deputy Director of Finance presented the Council's current Corporate Risk Register following review by the Corporate Management Team (CMT). Simon Lane, Head of Audit and Investigations clarified that the corporate risk register, which identified the Council's top strategic and operational risks, had evolved over the last year through consultation with Departmental Management Teams (DMTs) and had been the subject of review by CMT in April 2012, September 2012 and February 2013.

Simon Lane gave a summary of a number of refinements that had been made to the Council's risk management strategy. He added that on 28 February 2013, the Corporate Management Team (CMT) reviewed the current register and suggested that some of the strategic risks were too broad to enable specific controls to be identified and assessed. Work was on-going to develop a revised register which would seek to remove a number of the broader strategic risks and re-group the key operational risks, as identified currently in the register, under strategic risks. In drawing members' attention to a sample of strategic risks, the Head of Audit and Investigations highlighted an over-run of the civic centre, insufficient operational capacity to deliver improvements to the customer service experience at the new civic centre both of which could cause serious delays in realising the expected savings and the welfare reforms which would have severe impact on homelessness. Members heard that the register was now easy to understand and manage but nevertheless not less risky.

In the discussions that followed, Councillor Al-Ebadi queried the groupings and the apparent lack of future action to address the risks identified. In response, Simon Lane clarified that action points had been indicated in the report and that the columns shaded red indicated the events over which the Council had no direct control or inadequate resources to take the appropriate action. He added that the register was presented to the Executive once a year and the Policy Coordination Group (PCG) quarterly.

Whilst welcoming the improvements to the risk register the Chair felt that it would be more helpful if the register was presented to Executive members more than once a year and that all members of the Council had increased involvement in its scrutiny. Councillor Ruth Moher, Deputy Leader and the Lead Member for Finance and Corporate Resources suggested a presentation of the corporate risk register at one of the Member Development sessions.

RESOLVED:

that the contents of the Council's updated corporate risk register be noted.

10. **Anti-fraud and bribery policy 2012**

Members considered a report that sought approval for the council's new Anti-Fraud and Bribery Policy and for the roll out of an e-learning package developed by Deloitte for the National Fraud Authority.

Simon Lane, Head of Audit and Investigations in outlining the reasons for the anti-fraud and bribery policy informed the Committee about the renewed government focus on fraud, significant change to corruption legislation and the challenging times facing local authorities. He continued that in addition to facing the toughest funding settlement for decades, the council was required to identify savings of £100m over four years to 2014 to balance its budget with further cuts up to 2018. Such cuts inevitably would fall heavily upon staff and particularly management posts, posing a threat to traditional controls to prevent and detect fraud, such as supervision and separation of responsibilities. Coupled with an economic recession, which carried its own fraud risks, significant welfare reform and greater commissioning of local authority services, the risk of fraud had never been higher. The new policy therefore reinforced the need to acknowledge, prevent and pursue fraud and bribery with effective, cost efficient and robust sanctions.

In welcoming the improved version of the council's anti-fraud and bribery policy, the Chair urged officers to publicise the policy as widely as possible including all among members of the council. In responding to a query by Councillor Choudhary, the Head of Audit and Investigations clarified that the fixed penalty of £50 for overpayment of welfare benefits resulting from the submission of incorrect information was set by legislation and could not be increased by the council.

RESOLVED:

that the draft Anti-Fraud and Bribery policy and the roll out of the e-learning package be approved.

11. **Draft internal audit plan**

The Committee considered a report that set out the Draft Internal Audit Plan (the Plan) for 2013/14 and the basis on which the plan has been formulated. Aina Uduehi, Audit Manager informed the Committee that the total number of audit days of 1200 days had been split between the in-house team (295) and Deloitte (905) and with reference to the attached appendix explained how the proposed breakdown of individual audits would be split across departments and the link between the audit plan and the Council's Risk Management Framework.

Aina Uduehi clarified that the Plan included 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.

Members noted that the Brent Housing Partnership (BHP) Plan was being presented separately to their Audit & Finance Sub-Committee for approval and that the approved Plan would be presented to the Committee for information purposes at the next scheduled meeting.

The Audit Manager continued that in order to help ensure that all key risk areas including new and emerging risks were identified the audit team was in the process of updating the Audit Needs Analysis (ANA) for 2013/14. Members heard that the Internal Audit Team would be attending Departmental Management Team (DMT) meetings between now and the end of the current financial year to seek further input from Directors and Assistant Directors on the ANA which would be focused around a set of internal and external risk factors set out in the report. Internal Audit would also liaise with the Council's external auditors (KPMG) regarding the content of the Plan thus allowing for a further input of knowledge with regards to key risk areas, as well as helping to ensure that the work of each risk area was co-ordinated, avoided gaps and duplication in coverage.

RESOLVED:

- (i) that the approach taken to formulate the draft plan for the 2013/14 financial year and the content of the draft plan in line with the Committee's role, as defined in the Constitution be noted;
- (ii) that approval be given to the commencement of work against the Annual Internal Audit Plan for the 2013/14 financial year, from 1 April 2013 with the final plan to be approved at the next scheduled meeting.

12. **Any other urgent business**

None.

13. **Date of next meeting**

The date of next meeting will be confirmed after the Council Annual meeting on 15 May 2013.

The meeting closed at 9.00 pm

S WOOD
Chair