



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Wednesday 9 January 2013 at 7.30 pm

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

Also present: Councillor S Choudhary

1. Declarations of personal and prejudicial interests

None declared.

2. Deputations

None received.

3. Minutes of the previous meeting

RESOLVED:-

that the minutes of the previous meeting held on 27 September 2012 be approved as an accurate record of the meeting.

4. Matters arising

Schools audit reports

Simon Lane, Head of Audit and Investigations, reported that on advice of the Director of Legal and Procurement he had sent school audit reports for 6 schools to the governors as requested by the Committee. He cautioned that all school audit reports were meant to be confidential and should be treated as such and should not be discussed with the press and public. He undertook to send out the rest of the audits in batches as and when they were reported on. The Chair added that issues of conflict arising from the audit reports should be discussed with either Simon Lane or the Director of Legal and Procurement.

Councillor Cummins enquired about any remedial steps being taken by officers to ensure that those schools were addressing the problems highlighted in the audit reports. Simon Lane responded that an action plan with which to address the problems with recommendations was also sent to each school. The implementation of the action plans was being monitored and would be reviewed within 12 months.

Copland Community School

Councillor Al-Ebadi sought an update on the financial irregularities at Copland Community School. Simon Lane confirmed that the Crown Prosecution Service (CPS) was satisfied that there was sufficient evidence to charge six former employees of the school with conspiracy to defraud. They would all stand trial later this year.

5. KPMG External audit progress report 2012-13

Members received a report by the Council's external auditors (KPMG) which set out the external audit progress report covering 2011/12 grant claims and certification work. Andrea White, Director of KPMG LLP, introduced the report which also highlighted the areas of work which KPMG would focus for the next quarter.

Andrea White informed Members that since being appointed as the Council's external auditor in September 2012, KPMG had prepared an annual report that set out the results of the 2011/12 grant claims and certification work, commenced planning for 2012/13 accounts audit and responded to a letter that raised concerns over changes in senior management. She continued that over the next quarter, her work would focus on the following;

- (a) Finalising the planning for the 2012/13 financial statements and value for money audits;
- (b) Preparing the 2012/13 Audit Plans for the Council and its Pension Fund for presentation at the Audit Committee on 20 March 2013;
- (c) Planning our interim accounts audits which would provide assurance over the key financial controls supporting the production of financial information for inclusion within the Council's 2012/13 financial statements. The interim fieldwork would commence in March 2013;
- (d) Discussing with officers the arrangements for the opinion audit visit including the working papers that the Council would be expected to prepare to support the financial statements audit so as to maximise the efficiency of the audit progress.

Andrea White advised Members that the audit fee for the year had been reduced by about 40% due to officer efficiency, outsourcing of the Audit Commission's in-house audit practice and internal savings, drawing members' attention to the comparative table of scale of fees for 2011/12 and 2012/13.

In clarifying the fee, Andrea White stated that it was contingent on several factors and assumptions including the following; an obligation on the Council to inform KPMG of any significant developments impacting on the audit; compliance of internal audit with appropriate professional standards; and appropriate work on all systems that provide material figures for the financial statements upon which KPMG can place reliance on them for its audit. In addition, officers would be expected to provide good quality working papers and records at the start of the final accounts audit, make available for audit all financial statements in line with the agreed timescales and prompt responses to queries and draft reports. She continued that within the fee level, KPMG would not be required to carry out additional work for any special investigations or respond to letters from members of the public. If this was not the case and KPMG was required to complete more work than was

envisaged, an additional fee would be charged for the work carried out. She emphasised that KPMG had also assumed that there would be no significant changes to the regulatory framework within which the Council operated.

Andrea White advised members that the plan for the audit of the 2012/13 financial statements detailing the risks identified, planned audit procedures, and any changes in fee would be presented at the Audit Committee meeting on 20 March 2013.

In welcoming the audit progress report, members noted that the efficiency of the Council's internal audit had in part contributed to the successful and noteworthy external audit and praised officers for their contribution. Councillor Al-Ebadi enquired as to whether there were hourly rates upon which the fee structure was based. Andrea White clarified that the fee structure was based on the Audit Commission's published hourly and fee scale rates.

RESOLVED:

that the external auditor's progress report for 2012-2013 be noted.

6. Certification of grants and returns 2011-12

The Committee received a report that summarised the results of work on the certification of the Council's 2011/12 grant claims and returns. Mr Stephen Lucas, Senior Manager KPMG, in setting the background to the report clarified that the certification work, with the exception of the housing and council tax benefit scheme claim ('the housing benefits claim') was performed by the Audit Commission as the appointed auditor for 2011/12 and completed by 31 October 2012. He continued that work on the housing benefits claim was split between the initial testing phase which was performed by the Audit Commission and the completion and reporting phase, which was performed by KPMG.

Members learnt that five returns relating to 2011/12 with a total value of £490 million had been certified and that the Audit Commission had issued unqualified certificates for four grants and returns. KPMG issued a qualification letter in respect of the housing benefits claim. He added that with fewer errors identified and one qualified certificate, this represented improvements in the accuracy and completeness of information provided for audit in 2011/12. Mr Lucas continued that overall, the Council had good arrangements in place for preparing grants and returns and no significant system weaknesses or issues of non-compliance with grant scheme requirements were identified that required to be addressed.

Mr Lucas informed the Committee that the fee for completing the grant certification work for 2011/12 was under £70,000, representing a reduction in the original estimate of £82,000. He attributed the lower fee to fewer claims that required certification and effective responses to audit queries. He drew members' attention to the recommendations given to each risk rating and what action management would need to take to address the risk.

Councillor Van Kalwala enquired as to whether KPMG had identified the sources of the risks and whether any robust system had been put in place to address the number of cases that may come through. Andre White responded that the increase

in demand for services coupled with reduced funding and reserves was putting pressure on staff and in some cases controls and risks already in place were not being complied with. Simon Lane added that additional resources had been made available to the Assistant Director of Customer Services who was fully conversant with the risks and was developing robust systems to address them.

In reference to recent publications by the Audit Commission on “improving council’s decision making on reserves, the Committee noted that whilst reserves helped councils to cope with unpredictable financial pressures and plan for their future spending commitments, a greater clarity was required from councils about the reasons for and the levels of the reserves. With that in mind it was agreed that this would be raised with members of the Budget and Finance Overview and Scrutiny Committee for their consideration. The Committee also emphasised the need for the Assistant Director of Customer Services to maintain a good grip on the risks identified.

RESOLVED:

- (i) that the external auditor’s report on certification of grants and returns 2011-12 be noted;
- (ii) that officers raise with members of the Budget and Finance Overview and Scrutiny Committee, greater clarity about the reasons for and the levels of the Council’s reserves.

7. Annual Governance report - progress on action plan

Mick Bowden, Deputy Director of Finance and Corporate Services introduced the report which set out progress against the recommendations in the Annual Governance Report (AGR). He informed members that progress on the five of the recommendations which related specifically to the Statement of Accounts continued to be positive with the actions being embedded in the planning for the closure of the 2012/13 accounts. The remaining recommendations were closely related to the challenging financial climate within which the Council operated coupled with the need to ensure adequate reserves, meet the demand for school places and deliver procurement savings. He then gave an account of progress against each recommendation (Rec).

Rec	Progress
1	The central finance team resource had been strengthened through internal appointment to two qualified accountant posts and planning for 2012/13 closedown, including resource allocation, currently underway.
2	The update of the asset register incorporating changes and software updates to the system was scheduled for completion by the end of January.
3	Eight recommendations have been implemented, eight were in progress and one was no longer relevant due to changes arising from project Athena.
4	A proposed approach had been developed and shared with the auditors.

5	Review meetings have been held with each individual finance team to identify areas for improvement. The outcome of these was being incorporated into the planning for 2012/13 closedown
6	The position regarding Single Fraud Investigation Service had now been clarified by the DWP and a revised framework was expected to be available for approval by the Audit Committee at its meeting in February.
7	Latest budget monitoring for 2012/13 indicated that the planned reserves increase of £1m would be delivered
8	Training in 'procurement and contract performance management' now being delivered across the organisation has received positive feedback. 'E-procurement' was scheduled for go live in August 2013. 'Additional operational savings through procurement activity' made.
9	An updated report on progress in delivering school places would be presented to Executive in January 2013. The report recognised the need to continue to look at alternative options for funding school places in recognition of the significant resource challenges involved.
10	Risk registers continued to be reviewed by service areas and by internal audit. The key risks were submitted to PCG in accordance with the quarterly schedule.

The Head of Audit and Investigations added that he would update the progress report to include provisions of the Bribery Act to ensure that a more robust system was in place.

Councillor Al-Ebadi informed the Committee that he believed the tendering process in Brent which involved the opening of tenders by two officers was open to abuse. Prior to raising the issue he declared that he had an interest in a particular matter in which his company was bidding. He referred in particular to disposals of land and real estate where he alleged that it may be possible for officers to give information on prices to prospective bidders. Although he had no direct evidence of this he said if it was the case it would constitute fraudulent practices which needed investigating.

Andrea White highlighted the need for the Council to give to her auditing team, a clear understanding of the measures it planned to put in place to deal with suspected fraud cases and comply with the Bribery Act. She added that the process that may result from the measures could give rise to increased auditing work to ensure that no material fraud was involved. If additional was undertaken, KPMG would have to charge additional fee to reflect the work carried out.

The Chair suggested that the Head of Audit and Investigation arrange a meeting involving the Director of Legal and Procurement, Head of Corporate Property and Councillor Al-Ebadi to look into the allegation made by the councillor about fraudulent tendering practices. Members noted that KPMG would submit their action plan to the next meeting.

RESOLVED:

- (i) that the progress on Annual Governance report be noted;
- (ii) that the Head of Audit and Investigation arrange a meeting involving the Director of Legal and Procurement, Head of Corporate Property and

Councillor Al-Ebadi to look into the allegation made by councillor about fraudulent tendering practices.

8. 2012-2013 Mid-year treasury report

Members received a report which provided an update on the summary of treasury management activity during the first half of 2012/13. Mick Bowden, Deputy Director, provided a view of the falling growth rates in Europe and particularly in the UK which had kept inflation under control. He added that short-term money market rates had remained at very low levels and that the UK Bank Rate which had been maintained at 0.5% since March 2009 was not expected to rise until 2015/2016.

The Deputy Director informed the Committee that Brent had been accepted to receive the "Certainty Rate" which would enable "eligible authorities" to access cheaper loans from the Public Works Loans Board (PWLB). This would give a further boost to provide robust forecasts on borrowing plans. Members heard that despite the availability of alternative sources of long-dated funding PWLB was more advantageous and in this year, two long term loans of £10m each had been raised from that source. The average cash balances, representing the Council's reserves and working balances, were £95m during the period.

In respect of deposits at Icelandic Banks, members noted that following the decision of the Icelandic Supreme Court, Brent had recovered £4m out of £5m deposited with Glitnir Bank. With almost £7.5m recovered to date and a further £0.5-£0.8m expected by 31 March 2013, over £9m of the £10m deposited with Heritable would have been recovered in all. Members heard that the distribution currencies were being held in Icelandic kroner, pending the lifting of exchange controls.

Councillor Cummins suggested that as all local authorities had accepted the ruling and the distribution of the deposits, it would be prudent for this Council to request the Icelandic authorities to release our deposits back to help boost the level of our reserves. The Deputy Director advised that as the deposits were part of our investments and therefore our overall net worth, they did form part of the Council's reserves. The Chair enquired as to why the level of usable reserves projected to March 2015 was on a reducing balance. The Deputy Director emphasised that this related to earmarked reserves being used as planned and that the Council took a prudent view of cash reserves in future years.

RESOLVED:

that the 2012/2013 mid-year treasury report be noted.

9. Internal audit progress report

Members considered a report from the Deputy Director of Finance which summarised the work of Internal Audit and the Investigations Team I including the assurance opinions awarded and any high priority recommendations from 1 April 2012 to November 30 2012.

Simon Lane, Head of Audit and Investigations reported on a range of audits that had been undertaken since the last meeting, comprising both financial and non-financial systems, some One Council Projects and work across the schools. He continued that as part of the rolling programme, all recommendations were being followed-up with management, as and when the deadlines for implementation passed. Members heard about progress made in housing benefit, blue badge and internal fraud.

Phil Lawson, Sector Manager (Deloitte) added that he was satisfied with the amount of co-operation received from officers and the progress made by the Council as a whole. The Committee's attention was drawn to the list of areas within the final reports issued since the last meeting, together with recommendations, management responses, deadline for implementation and progress made.

RESOLVED:

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

10. **Risk register update**

The report before members presented an updated version of the Council's Corporate Risk Register. Simon Lane, Head of Audit and Investigations highlighted the key strategic risks, impact and measures being put in place to control them. Members heard that the proposed welfare reforms coupled with the impact of current economic climate could increase demand for housing and homelessness and to control that a cross council project board together with smaller delivery teams had been set up to take forward a detailed action plan. Other corporate risks spotlighted included the rising demand for school places as a result of demographic changes and the rising costs of looked after children. The Committee heard from Aina Uduehi, Audit Manager, that departmental management teams (DMTs) were demonstrating a greater understanding of and engagement with corporate risks.

The Chair noted that more risks were being added to the register, an indication that active interest was being taken, however, he enquired as to the process for dealing with underlying corporate risks. Simon Lane explained that a document setting out identified risks were circulated on quarterly basis to members of the corporate management team (CMT) from which an action plan was put in place to control them. He added that the next update to the register would be made in June 2013.

RESOLVED:

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

11. **Internal audit contract 2013-2015**

Members received a report that advised of the proposals to recommend to the Executive that the council enter into a contract with the London Borough of Croydon for the provision of internal audit services for a two year period from April 2013 to March 2015. Simon Lane, Head of Audit and Investigations informed members that there had been no issues with the performance of the existing two year

contract with “Croydon Framework”. He added that the anticipated cost of this contract over two years, including inflationary uplift would be £590,000.

Members indicated that they would have preferred an opportunity to consider the options prior to the matter going to Executive as they should be endorsing the approach and that their endorsement should be noted in the Executive report.

RESOLVED:

that the contract with Croydon Framework be noted with an amendment to include the committee’s endorsement.

12. **Any other urgent business**

None.

13. **Date of next meeting**

The next meeting will be held on Wednesday 20 March 2013 at 7:30pm.

The meeting closed at 9.20 pm

S WOOD
Chair