



Audit Committee – revised agenda

Wednesday 9 January 2013 at 7.30 pm

Committee Room 4, Brent Town Hall, Forty Lane,
Wembley, HA9 9HD

Membership:

Members

Councillors:

Stephen Wood (Chair)
Al-Ebadi
Cummins
Van Kalwala

first alternates

Councillors:

S Choudhary
Ashraf
Harrison

second alternates

Councillors:

Pavey
Green
Hector

For further information contact: Joe Kwateng, Democratic Services Officer
(020) 8937 1354, joe.kwateng@brent.gov.uk

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The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
1 Declarations of personal and prejudicial interests	
Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2 Deputations	
3 Minutes of the previous meeting	1 - 8
4 Matters arising	
5 KPMG External audit progress report 2012-13	9 - 14
This report by the Council's external auditor (KPMG) sets out the external audit progress report covering 2011/12 grant claims and certification work. The report also highlights the areas of work which KPMG will focus for the next quarter.	
6 Certification of grants and returns 2011-12	15 - 24
This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.	
7 Annual Governance report - progress on action plan	25 - 32
This report sets out progress against the recommendations in the Annual Governance Report.	

Ward affected:

All Wards

Contact Officer: Mick Bowden, Deputy Director of Finance

Tel: 020 8937 1460 mick.bowden@brent.gov.uk

8 2012-2013 Mid year treasury report **33 - 40**

This report updates members on recent treasury activity.

Ward affected: **Contact Officer:** Mick Bowden, Deputy Director
of Finance

All Wards Tel: 020 8937 1460 mick.bowden@brent.gov.uk

9 Internal audit progress report **41 - 80**

This report summaries the work of Internal Audit and the Investigations Team from 1st April 2012 to November 30th 2012. The attached report provides further details of this together with assurance ratings of reports issued.

Ward affected: **Contact Officer:** Mick Bowden, Deputy Director
of Finance

All Wards Tel: 020 8937 1460 mick.bowden@brent.gov.uk

10 Risk register update **81 - 90**

The purpose of this report is to present an updated version of the Council's Corporate Risk Register to the Audit Committee.

Ward affected: **Contact Officer:** Mick Bowden, Deputy Director
of Finance

All Wards Tel: 020 8937 1460 mick.bowden@brent.gov.uk

11 Internal audit contract 2013-2015 **91 - 94**

This report advises the Audit Committee 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.

Ward affected: **Contact Officer:** Mick Bowden, Deputy Director
of Finance

All Wards Tel: 020 8937 1460 mick.bowden@brent.gov.uk

12 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

13 Date of next meeting

The next scheduled meeting of the Audit Committee is scheduled to be held on 20 March 2013.



- Please remember to ***SWITCH OFF*** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.
 - Toilets are available on the second floor.
 - Catering facilities can be found on the first floor near The Paul Daisley Hall.
 - A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Thursday 27 September 2012 at 7.30 pm

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

Also present: Councillor Gladbaum

Apologies for absence were received from: Councillor Cummins

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

There were no declarations of interest.

2. **Deputations**

None.

3. **Minutes of the previous meeting**

RESOLVED:-

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

4. **Matters arising**

There were no matters arising.

5. **Annual Governance Statement**

Mick Bowden (Deputy Director of Finance) presented a report to the committee setting out the Annual Governance Statement (AGS) for 2011/12. The committee was advised that the AGS explained how the council complied with the principles established by the 'Delivering Good Governance in Local Government' framework developed by the Chartered Institute for Public Finance Association (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), which were reflected in the council's local Code of Corporate Governance, set out at Part 7 of the Council's constitution. The AGS had been informed by the corporate governance review which had drawn upon existing documentation and information from various sources across the council including performance information, risk management, service directors, internal and external audit and inspectorates and partners.

Mick Bowden asserted that the AGS was very frank document which indicated how the council delivered against the 6 core principles of the local code of governance,

established what progress had been made against issues raised in the previous year's review, and set out the challenges that the council faced in meeting these principles in the forthcoming year. Issues of continued significance included the pressure on schools places in the borough, pressures on social care services, the impact of the welfare reforms and concerns regarding the governance arrangements within schools. Following the 2011 census which had revealed that the population served by the council was 58,000 more than was recognised through the Formula Grant process, therefore resulting in chronic and on-going underfunding, the council was seeking to ensure that the borough's true population was properly reflected in future grant calculations.

During members' discussion Councillor Al-Ebadi queried whether, the council could recover any of the funding lost to the borough as a result of the underestimate of Brent's population. Mick Bowden advised that the council would make representations to that affect but it was unlikely to be successful. The Leader of the council explained that this issue would be discussed with London Councils and the leaders of other London councils to explore a joint response to this issue. Councillor Ashraf noted that the AGS included a comment on the recent departure of the Chief Executive and queried whether, in view of the current suspension of the Director of Finance, further exploration of the way in which these changes would be accommodated by the senior management team, needed to be reflected in the AGS. The Chair noted that the purpose of the governance statement was to examine the processes and systems in place and the expectation would be that the organisation would continue to apply these in the absence of any specific members of staff. It was important that if any member of staff at any level of the organisation was absent, the organisation was sufficiently resilient to ensure that the workload of that member of staff was covered.

RESOLVED: -

that the Annual Governance Statement be approved.

6. Brent Council Statement of Accounts 2011/12 and Annual Governance Reports

Andrea White (Audit Commission) advised that there were two Annual Governance Reports (AGRs) before the committee; the London Borough of Brent Audit 2011/12 and the Brent Pension Fund Audit 2011/12; an updated version of the former had been tabled for the committee's information. The AGRs were produced by the council's external auditors, the Audit Commission, following the completion of the audit of accounts. The reports sought to highlight changes to the accounts, unadjusted mis-statements or material weaknesses in controls that had been identified during the audit process.

Turning first to the London Borough of Brent Audit, Andrea White highlighted that the key message of the report was that the council had made significant progress against the recommendations made in the 2010/11 AGR and there had been considerable improvement to the council's year-end financial control and closure process. There had been a high number of mainly presentational errors made, however, and whilst these had not been fundamental to the main statements within the accounts, further improvements to the closure processes should be made for 2012/13. One non-material uncertainty had been identified in relation to the

council's intent to implement componentisation accounting; however officers had estimated that the maximum possible error equated to £3.5 million in the council's balance sheets and the council's cash position and usable reserves would not be impacted. The council had undertaken to review the error and implement componentisation accounting. Andrea White explained that it was her intention to conclude that the council had secured value for money in the use of resources and added that there was sound financial management in place. There would be more pressure to achieve further savings in the immediate future and it was recommended that members continue to monitor financial performance closely to ensure that the council achieved its short and medium term financial plans. It was expected that the formal opinion would be issued on 28 September 2012 and that the Council's accounts would be certified by 5 October 2012.

Martin Searle (Audit Commission) advised that subject to the final audit closure and review processes, and receipt of the letter of management representation, the District Auditor intended to issue an unqualified opinion on the financial statements by 30 September 2012. There had been one material error identified, which had been the misclassification of £84.3 million Other Housing Services Income and Expenditure. The statements had been amended and there was no impact on the total Cost of Services or the balance sheet. With reference to Table 1 set out in the AGR, Martin Searle highlighted some of the key findings, against the risks identified in the 2012 Audit Plan. In particular, it was noted that the council needed to be alert to its reliance on a small number of finance staff who had experience in technical areas and it would be important for the council to maintain sufficient capacity to facilitate the efficient preparation of future statements. Other findings which had arisen from the audit included that related party disclosures were in line with requirements of the code, although it was noted that declarations were not received from one councillor; and that the anti-fraud document, whilst comprehensive and informative, needed to be updated to reinforce the council's stance against the perpetration of fraud. The committee's attention was particularly drawn to several areas on which it was recommended to form a view; these included identifying posts that were high risk in terms of fraud and corruption, and the identification of balances within the council's accounting records that were more susceptible to fraud.

Martin Searle further advised that it had been recognised that the council had successfully managed the financial pressures in 2011/12 to deliver its services within the budget and contribute the planned £2.5 million to its General Fund reserve. Current progress against the budget in 2012/13 indicated cost pressures of £2.2 million against a budget requirement of £263 million. The council was confident that the overspend would be managed and was forecasting that the budget would be met. For 2013/14 and beyond financial projections took into account the local impact of reforms to benefits funding and non-domestic rates.

Members' attention was subsequently drawn to the Brent Pension Fund Audit 2011/12 AGR which had also been considered by the Brent Pension Fund Sub-Committee on 25 September 2012. Andrea White advised that the financial statements of the Brent Pension Fund were consistent with the Pension Fund statements audited. It was anticipated that an unqualified opinion would be issued by 30 September 2012. The accounts had been completed by the due date and were supported by good working papers and audit trails. Two key weaknesses had been identified in the course of the audit; an internal control weakness over general

ledger journals and the concentration of pension fund and investment knowledge. Controls over journals were found to not be operating effectively throughout the full financial year. Out of a sample of 20 journals tested by Internal Audit during the year, 4 were both prepared and authorised by the same officer which raised the risk that erroneous or unauthorised amounts could be input into the general ledger. As a result, detailed testing on all material year end journals were carried out to obtain sufficient assurance over their validity. Secondly, it became apparent that the knowledge of the fund and its investments was largely concentrated in one key member of staff, the former Head of Exchequer who had retired. Other pension fund staff lacked sufficient overall knowledge and understanding of the Council's investments and how they are reflected in the accounts to answer audit queries quickly and efficiently. Consequently, the completion of the audit took longer than anticipated. Despite these weaknesses, there had been few errors and queries raised during the course of the audit.

Mick Bowden then provided a brief overview of the statement of accounts. With reference to the comprehensive income and expenditure statement, he clarified that whilst the housing revenue accounts (HRA) settlement and capital grants had to be listed as income in this document, they did not reflect funds available for revenue spending. Furthermore, turning to the balance sheet, the committee was advised that this had to include negative reserves and this meant, for example, that the pension fund deficit was listed under 'other long term liabilities'. Usable reserves related equated to reserves available to the council, whereas unusable reserves included monies such as the pension fund.

The Chair sought further details regarding the increase in school reserves. Mick Bowden advised that the funds for the previous standards regime, which had since ended, had been rolled into the schools general reserves.

RESOLVED: -

- i. that the adjustments made to the accounts referred to in the London Borough of Brent Audit 2011/12 Annual Governance Report and the Brent Pension Fund Audit 2011/12 Annual Governance Report be noted.
- ii. that the letters of representation to the Audit Commission be approved.
- iii. that the Council's response to the action plan be agreed.
- iv. that an update on the implementation of the recommendations set out in the London Borough of Brent Audit 2011/12 Annual Governance Report be provided to the committee at its next meeting.

7. The Treasury Management Annual Report 2011/12

Mick Bowden presented the Treasury Management Annual Report 2011/12 to the committee, explaining that the report summarised the council's borrowing and investment activity and performance compared to prudential indicators. Having considered the report at its meeting on 19 September 2012, the Executive had made a recommendation to Full Council, that it approve the report at the meeting scheduled for 19 November 2012.

Mick Bowden explained that economic growth in the UK had been slow in 2011/12 and interest rates had continued to be relatively low, reflecting the low demand for credit and desire for security. With reference to Table 2 set out at paragraph 3.6 of

the report, the committee was advised that there had been a reduction in the level of fixed rate borrowing from the Public Works and Loans Board (PWLb) during 2011/12, largely due to the repayment by the Department for Communities and Local Government of £198m debt relating to the Housing Revenue Account (HRA). It was anticipated that this would allow the HRA to be self-financing in the long term while accruing interest. The council had also borrowed £20 million from the PWLB in 2011/12 at a low interest rate. Turning to the council's lending activity, Mick Bowden advised that due to the current climate of low returns and concerns over financial institutions, the council had sought to restrict the investments to a select few institutions. The council had been successful in the recovery of approximately £13 million of the £15 million loan that had been made to Icelandic banks, prior to their collapse. Mick Bowden concluded by noting that the remaining aspects of the report referred to the regulatory requirements during the 2011/12 financial year.

The Chair commented that officers should consider initiating the process of obtaining approval of the Treasury Management Annual Report earlier, noting that it should be available following the end of the financial year.

RESOLVED: -

That the Treasury Management Annual Report 2011/12 be noted.

8. Corporate Risk Register

Aina Uduehi (Audit Manager) advised that this update report on the Corporate Risk Register had been provided at the request of the committee. The current version of the Corporate Risk Register had been approved by the Corporate Management Team at its meeting on 13 September 2012. The key changes that had been made to the document related to the reduction in some of the inherent risk scoring to adjust for a previous omission, and the addition of further detail concerning the control of the risks associated with the welfare reforms.

During members' discussion, Councillor Ashraf queried how often the register was updated and was advised that the Head of Audit and Investigations meets with the Corporate Management Team on a quarterly basis to review and update the strategic and operational risks. Councillor Ashraf further queried whether external risks were captured on the corporate risk register. In response, Aina Uduehi drew members' attention to those risks which referred to the policies of central government such as the proposed changes to welfare benefits and the effects of the recession.

RESOLVED:-

That the updated Corporate Risk Register be noted.

9. 1st Internal Audit Progress Report 2012/13

at Aina Uduehi introduced the 1st Internal Audit Progress report for 2012/13 to the committee and noted that it reflected the work of both Internal Audit and the Investigations team from 1 April 2012 to 31 August 2012. The Internal Audit Plan for 2012/12 comprised 1,200 days, of which 905 were allocated to Deloitte Touche

Public Sector Internal Audit Limited. The remaining 295 days were allocated to the in-house team. As of 31 August 2012, 368 days had been delivered against the overall Plan, which equated to 31 per cent of the Plan and was in line with the levels of delivery for 2011/12. The committee was advised that it had not been possible to conduct audits in a number of areas due to requests for deferral relating to work or restrictions regarding the move to the new Civic or the Olympic Games and due to changes in procedures or structural changes which required time to embed prior to being reviewed. It was intended that by December 2012, 60 to 70 per cent of the Plan would be delivered and much of the work for this had already been scheduled. Aina Uduehi concluded by drawing members' attention to the list of audits completed during this period.

In the subsequent discussion members raised a number of issues. With the permission of the Chair, Councillor Gladbaum queried whether, in view of the negative reputation of Brent's Schools in relation to financial management, a more robust financial auditing process was required. The Chair queried whether either the audit team or officers in the Children and Families team communicated collectively with schools, through for example meetings with head teachers or school governors. The Chair further queried whether the audit reports were sent direct to the governors of the schools. Councillor Ashraf suggested that the role of the Chair of governors should be developed to encourage greater independence from Head Teachers. Councillor Ashraf also queried how the audit team overcame difficulties associated with schools perceiving their actions as negative or critical, to achieve a positive auditing process. Councillor Van Kalwala queried whether the council could draw on examples of good practice from other local authorities in how to better encourage a good relationship between the council and local schools. Councillor Van Kalwala further queried whether a template of the audit framework was sent to all schools for their information

In responding the committee's initial queries, Aina Uduehi advised that the audit process for schools was very robust; however there had been a period of two to three years where the council had not conducted full audits of Brent's school as it had instead been required to conduct Financial Management Standards in Schools (FMSiS) assessments. All of Brent's schools would be visited by the end of next year, by the audit team. The council had a very detailed audit programme for schools, which had been viewed by the external auditors. Various training was available for all head teachers and school governors in Brent. The council worked closely with Brent's schools and whilst some schools did approach the audit process with a negative outlook, the council did attempt to create a collaborative approach. Meetings were held with schools prior to the audit reports being formally written and schools were given the opportunity to respond following the reports being issued. A copy of the audit report was sent to the Chair of governors with the expectation that the report would be shared with and discussed at a meeting of the school governors. Any issues of relevance to all schools would be shared by circulars to the schools and via the schools extranet. Phil Lawson (Auditor) advised that in two cases schools had become more engaged with the audit process and had requested for example, that rather than conducting a full audit, the council work directly with the school to identify areas of weakness and help to develop an action plan to address these. Andrea White advised that it would be important to develop the relationship between the council and Brent's head teachers and that this relationship was subject to a range of influences.

Councillor Al-Ebadi queried whether it was possible to view the audit reports for those schools within his ward. Aina Uduehi explained that she would have to seek advice regarding this matter as the reports contained information that would usually be required to be redacted prior to public release.

Councillor Al-Ebadi noted that there were no figures for 2012/13 in the table provided at paragraph 3.13 regarding internal fraud, and sought details of whether the council referred those members of staff who had committed criminal offenses, for example, by working illegally, to the police. Aina Uduehi explained that any reports to the police would have to be dependent on the offence and that the four officers referred to in the 2012/13 statistics had left as a result of identity/illegal working and misuse of blue badge.. The committee was further advised that the numbers recorded against those employees who had resigned or been dismissed as a result of issues of internal investigations did not always relate to criminal offences. Those cases that related to benefit fraud would be reported through the appropriate channels and action would be taken on the basis of the nature of the offence but would not necessarily be reported to the police. The Chair noted that the level of evidence required to pursue a successful criminal prosecution was far greater than that required to dismiss an employee and therefore, unless there was a high degree of financial fraud involved it was likely that the police would not be able to act. Councillor Al-Ebadi also requested that the financial impact of internal fraud should be provided to members of the Audit Committee.

The Chair sought further details regarding the audit that had been conducted on the Procurement Team. Councillor Ashraf queried whether the procurement team had sufficient capacity to support the desired improvements to the procurement process. Phil Lawson advised that the comments of the audit commission regarding procurement provided a valuable perspective on the activities of the council in this respect. The findings of the internal audit of the team had identified a number of weaknesses but it was recognised that there were developments in progress that would address these, which would be reviewed in due course. Martin Searle confirmed that it was considered that the capacity of the team had been built up well through the introduction of several new roles; the challenge was to ensure that the expertise contained in these new roles was appropriately accessed.

The committee advised that schools audit reports should be sent direct to each of the school's governors and suggested that where appropriate the consultancy service be extended as an option to other Brent schools. The committee further suggested that officers continue to explore ways to improve the relationship between the council and head teachers and that the Children and Young People Overview and Scrutiny Committee may wish to consider this at a strategic level, and may wish to examine examples of best practice from other local authorities. It was agreed that further information would be reported back to the Committee.

RESOLVED: -

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

10. **Any other urgent business**

None.

11. **Date of next meeting**

The committee noted that the next meeting would be held on 9 January 2013.

The meeting closed at 9.40 pm

S WOOD
Chair



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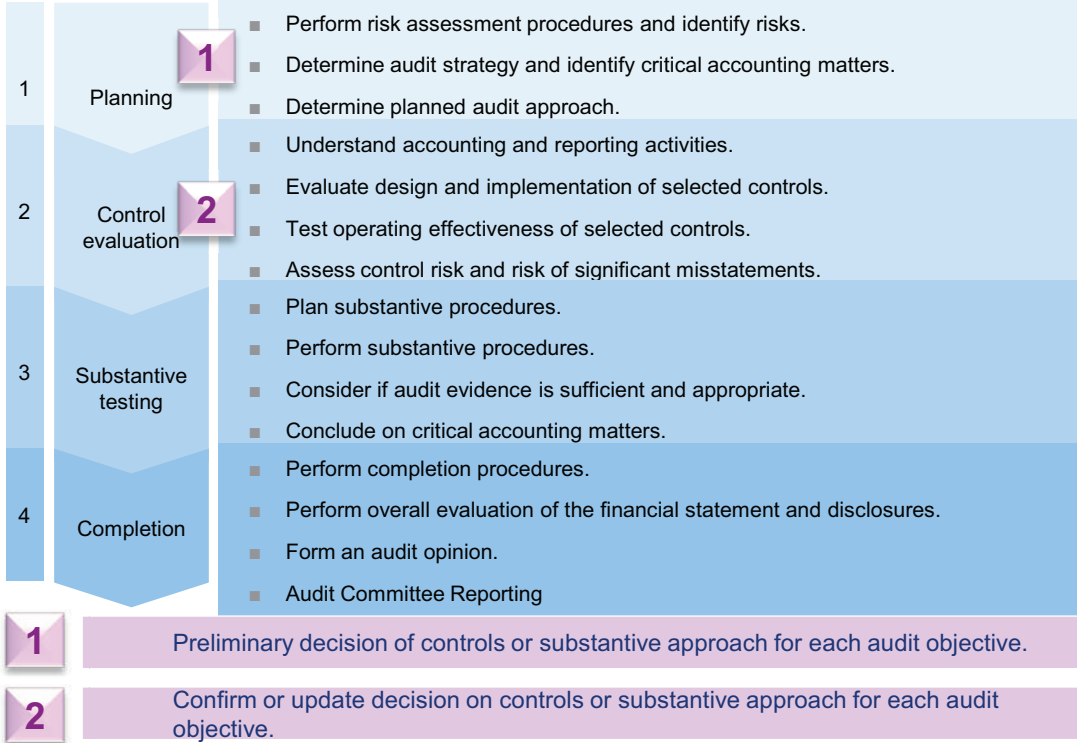
External Audit: Progress Report

London Borough of Brent

January 2013

London Borough of Brent

External Audit: Progress report 2012/13

Summary of work performed by KPMG	<p>KPMG was formally appointed as the Council's external auditor on 1 September 2012.</p> <p>Since then we have :</p> <ul style="list-style-type: none"> • Prepared an annual report setting out the results of the 2011/12 grant claims and certification work performed by the Audit Commission and KPMG – this is a separate item on the agenda; and • Commenced our planning for the 2012/13 accounts audit: and • Responded to a letter that raised concerns over changes in senior management. 																							
Summary of work proposed over next quarter	<p>Our work over the next quarter will focus on:</p> <ul style="list-style-type: none"> • Finalising the planning for our 2012/13 financial statements and value for money audits; • Preparing our 2012/13 Audit Plans for the Council and its Pension Fund for presentation at the Audit Committee on 20 March 2013; • Planning our interim accounts audits which provides assurance over the key financial controls supporting the production of financial information for inclusion within your 2012/13 financial statements. The interim fieldwork will commence in March 2013; • Discussing with officers the arrangements for our opinion audit visit including the working papers that we would expect the Council to prepare to support the financial statements audit, thereby maximising the efficiency of the audit progress. 																							
Audit approach	<p>We have a detailed audit approach that enables us to deliver an efficient audit. The main stages are summarised below.</p>  <table border="1"> <thead> <tr> <th>Stage</th> <th>Activity</th> </tr> </thead> <tbody> <tr> <td rowspan="3">1 Planning</td> <td>Perform risk assessment procedures and identify risks.</td> </tr> <tr> <td>Determine audit strategy and identify critical accounting matters.</td> </tr> <tr> <td>Determine planned audit approach.</td> </tr> <tr> <td rowspan="3">2 Control evaluation</td> <td>Understand accounting and reporting activities.</td> </tr> <tr> <td>Evaluate design and implementation of selected controls.</td> </tr> <tr> <td>Test operating effectiveness of selected controls.</td> </tr> <tr> <td rowspan="3">3 Substantive testing</td> <td>Assess control risk and risk of significant misstatements.</td> </tr> <tr> <td>Plan substantive procedures.</td> </tr> <tr> <td>Perform substantive procedures.</td> </tr> <tr> <td rowspan="4">4 Completion</td> <td>Consider if audit evidence is sufficient and appropriate.</td> </tr> <tr> <td>Conclude on critical accounting matters.</td> </tr> <tr> <td>Perform completion procedures.</td> </tr> <tr> <td>Perform overall evaluation of the financial statement and disclosures.</td> </tr> <tr> <td></td> <td>Form an audit opinion.</td> </tr> <tr> <td></td> <td>Audit Committee Reporting</td> </tr> </tbody> </table> <p>1 Preliminary decision of controls or substantive approach for each audit objective.</p> <p>2 Confirm or update decision on controls or substantive approach for each audit objective.</p>	Stage	Activity	1 Planning	Perform risk assessment procedures and identify risks.	Determine audit strategy and identify critical accounting matters.	Determine planned audit approach.	2 Control evaluation	Understand accounting and reporting activities.	Evaluate design and implementation of selected controls.	Test operating effectiveness of selected controls.	3 Substantive testing	Assess control risk and risk of significant misstatements.	Plan substantive procedures.	Perform substantive procedures.	4 Completion	Consider if audit evidence is sufficient and appropriate.	Conclude on critical accounting matters.	Perform completion procedures.	Perform overall evaluation of the financial statement and disclosures.		Form an audit opinion.		Audit Committee Reporting
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London Borough of Brent

External Audit: Progress report 2012/13

The combination of outsourcing the Audit Commission's in-house Audit Practice and internal savings mean that the Audit Commission has been able to pass on a significant reduction in audit fees this year. The individual scale fees that the Audit Commission has set for the London Borough of Brent for 2012/13 are as follows:

Audit Area	2012/13 (Proposed Scale Fee)	2011/12 (Actual Fee)
Audit of London Borough of Brent	£263,520	£439,200
Audit of Pension Fund	£21,000	£35,000
Certification of grant claims	£39,500	£69,338

2012/13 fees

Our fee is contingent on the following:

- you will inform us of any significant developments impacting on our audit;
- internal audit meets appropriate professional standards and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit;
- good quality working papers and records will be provided at the start of the final accounts audit;
- your financial statements are made available for audit in line with the agreed timescales;
- prompt responses will be provided to queries and draft reports; and
- additional work will not be required for any special investigations or responding to letters from members of the public.

It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. We have also assumed that there will be no significant changes to the regulatory framework you operate in.

Our plan for the audit of the 2012/13 financial statements will be presented at the Audit Committee meeting on 20 March 2013. This will detail the risks identified, planned audit procedures, and (if required) any changes in fee.

Actions

The Audit Committee is asked to:

- **NOTE** this progress report.

Contacts

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London Borough of Brent

External Audit: Progress report 2012/13

Local Government Update/ Topical Issue

Matter	Impact on the Council and insight from KPMG
<p>Key Local Government Emerging Issues</p> <p>Some of the key emerging issues that we believe local government authorities will face over the next five years are set out below.</p> <p>Financial and economic challenges</p> <p>The implications of a significant fall in local government funding, matched by increased service demands, are broad. Local authorities have to balance the risk of financial cuts against local economic and community impact. Councils will also have to focus on stringent cost controls and mitigating unplanned costs, such as rising pressures on social care budgets.</p> <p>Organisational change</p> <p>In a period of deep public sector austerity, major efficiency drives are required. The automatic reaction to this need for efficiency is often organisational rationalisation (or downsizing) and/or implementing shared service operations. Yet such measures are not without their own inherent risks. Considering the longer term impact of decisions made to assuage more immediate pressures can risk compromising the very savings they were intended to generate further down the line.</p> <p>Workforce management</p> <p>The Audit Commission found that only one-in-four English councils had adequate or effective workforce strategies in place. Without improving a council's approach to workforce planning, key corporate priorities such as service transformation, efficiency gains and mainstreaming equalities may be at risk.</p> <p>Supply chain</p> <p>Local authorities are increasingly entering into a broad range of relationships across the public, private and third sector. Many of these relationships underpin critical operations and service delivery. Unfortunately, outsourcing and partnership working failure has caused a variety of disasters and embarrassments, emphasising that supply chain risk is potentially catastrophic.</p> <p>Asset management</p> <p>The current fiscal environment will place local authorities under increasing financial pressure to improve their asset management both in terms of the need for efficiency gains and greater resilience concerning the remaining asset base. Emerging asset management opportunities, such as co-location in partnership working and shared services, plus the transfer of public assets to community ownership carry new risks and challenges.</p> <p>Data protection</p> <p>Managing information risk is a growing challenge for public sector organisations that collect, store and use a wide range of personal information. A Cabinet Office report on data handling procedures states that where local authorities hold or use personal information, they must act "as the custodian of that data and retain and build public confidence that information is held securely."</p> <p>Reputational damage</p> <p>In a 24/7 age of news and media, the risk of reputational damage is a growing issue as the public becomes increasingly aware and less tolerant of organisations that do not conform to regulatory, legal, societal and environmental expectations. For local government, the risk and challenge is perhaps even greater. A local authority – and its executive team – is at the very centre of the community and must retain the public's confidence at all times.</p>	<p>For information.</p> <p>The Council is facing an unprecedented level of change.</p> <p>We anticipate many of these issues will be faced by the Council over the next five years.</p>

London Borough of Brent

External Audit: Progress report 2012/13

Local Government Update/ Topical Issues

Matter	Impact on the Council and insight from KPMG
<p>Recent publications</p> <p>Tough times 2012 - Councils' responses to a challenging financial climate</p> <p>The Audit Commission published in November 2012 "Tough Times 2012" which looks at Councils' responses to the challenging financial climate. In their review, the Audit Commission found councils largely delivered their planned savings and in many cases added to reserves. However, a sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver their budgets.</p> <p>Report can be obtained from the Audit Commission's website www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes2012.aspx</p> <p>Striking a balance - Improving councils' decision making on reserves</p> <p>'Striking a balance' presents the Audit Commission's findings from research undertaken during 2012 on the level of reserves that councils hold and on the decisions councils make relating to them.</p> <p>Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. The report encourages English councils to focus more attention on the £12.9 billion set aside in their reserves. While it finds that councils routinely consider reserves as part of their annual budget setting, the report calls for officers to offer elected members clearer and more comprehensive advice, equipping them to make better-informed decisions. It also calls for greater clarity from councils about the reasons for holding reserves.</p> <p>Report can be obtained from the Audit Commission's website www.audit-commission.gov.uk/nationalstudies/localgov/Pages/Strikingabalance.aspx</p>	<p>For information.</p> <p>The Council is facing an unprecedented level of change.</p> <p>We anticipate many of these issues will be faced by the Council over the next five years.</p>

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Certification of grants and returns 2011/12

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London Borough of Brent

December 2012

Agenda Item 6

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in connection with this
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This report is addressed to the London Borough of Brent (LBB) and has been prepared for the sole use of LBB. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrea White who is the engagement leader to LBB (telephone 020 7311 2238, e-mail andrea.white@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction and background	<p>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns. This 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 appointed auditor for 2011/12 and completed by 31 October 2012. The work on the housing benefits claim was split between the initial testing phase, which was performed by the Audit Commission before 31 October 2012, and the completion and reporting phase, which was performed by KPMG in November 2012.</p> <ul style="list-style-type: none"> ■ Five returns relating to 2011/12 with a total value of £490 million have been certified . 	-
Certification results	<p>The Audit Commission issued unqualified certificates for four grants and returns.</p> <p>KPMG issued a qualification letter in respect of the housing benefits claim.</p> <ul style="list-style-type: none"> ■ A qualification letter was agreed with the Council, extrapolating and reporting on the errors found on the housing benefits claim . No amendments were made to the claim for the errors identified. ■ We identified fewer errors and qualified one certificate; an improvement on the previous year. 	Pages 3-4
Adjustments	<p>No adjustments were necessary to any grants and returns as a result of certification work this year.</p> <ul style="list-style-type: none"> ■ This reflects improvements in the accuracy and completeness of information provided for audit in 2011/12. 	Pages 3-4
The Council's arrangements	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work .</p> <ul style="list-style-type: none"> ■ Overall, the Council has good arrangements for preparing grants and returns and no significant system weaknesses or issues of non-compliance with grant scheme requirements were identified that need to be addressed. Recommendations are included in this report to address some of the more detailed findings derived from our work. 	Page 4
Fees	<p>The overall fee for the certification of grants and returns reflects a reduction on 2010/11 and is contained within the original estimate.</p>	Page 5

Certification of grants and returns 2011/12

Summary of certification work outcomes






Overall, five grants and returns were certified:

- 4 were unqualified with no amendment; and
- 1 required a qualification to the certificate, but was also not amended.

Further comments are provided overleaf.

Detailed below is a summary of the key outcomes from certification work on the Council's 2011/12 grants and returns, confirming that no amendments were required and one qualification made as a result of the work.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and council tax benefits scheme	①				
National non-domestic rates return	②				
Teachers' pensions return	③				
HRA subsidy	④				
Pooling of housing capital receipts	⑤				
		1	0	0	4

Certification of grants and returns 2011/12

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

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Ref	Summary observations	Amendment (£'000)
1	Housing and council tax benefits scheme <ul style="list-style-type: none"> ■ Claim preparation arrangements are strong in comparison with many London boroughs, most of which manage smaller caseloads. ■ Given the high complexity of the scheme the number of errors identified and qualification issues reported is small, and no adjustments were required to the claim submitted for audit; ■ Initial caseload testing identified six errors, all due to human error; three in HRA rent rebate cases, two in non-HRA rent rebate cases and one rent allowance case. The nature of the errors was as follows: <ul style="list-style-type: none"> – rent rebates - processing claimants' weekly income or rent incorrectly; and – rent allowances - misclassifying a housing association case as a regulated tenancy case. ■ As mandated by the grant funding department (Department for Work and Pensions or DWP) additional testing was carried out to assess the potential impact of the income and rent errors across the relevant caseload. Based on our extrapolation we reported that the Council may have overpaid benefit in error by £255k, but as Brent are well within the subsidy threshold for local authority error overpayments, it is unlikely that these errors would result in a loss of subsidy to the Council; ■ Using the same principles of extrapolation the misclassification between regulated tenancies and housing association tenancies is estimated as £205k, however, both categories attract subsidy at the same rate and hence there is no change to the Council's overall entitlement; ■ For approximately 80 properties the Council applied the incorrect rent cap, and is accordingly losing an element of subsidy that it is entitled to claim. While the effect has not been formally quantified, officers have stated that the maximum additional entitlement would not exceed £50,000; ■ A qualification letter to the DWP was agreed with the Council, reporting on the errors found and demonstrating the potential impact if the error was extrapolated across the relevant population. No amendments were made to the claim for the errors identified. 	£0
2	National Non-domestic Rates Return <ul style="list-style-type: none"> ■ The claim was fairly presented. 	£0

Certification of grants and returns 2011/12

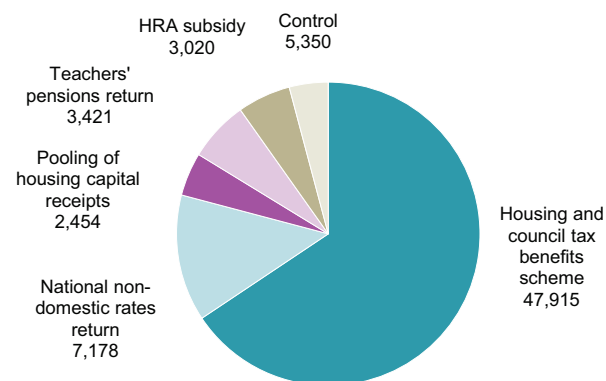
Summary of certification work outcomes (cont.)

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment (£'000)
3	Teachers' pension return <ul style="list-style-type: none"> The claim was fairly presented. 	£0
4	HRA subsidy <ul style="list-style-type: none"> The claim was fairly presented. 	£0
5	Pooling of housing capital receipts <ul style="list-style-type: none"> The claim was fairly presented. 	£0

Our overall fee for the certification of grants and returns was lower than the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return

	2011/12 (£)	2010/11 (£)
Housing and council tax benefits scheme	47,915	47,828
National non-domestic rates return	7,178	8,638
Pooling of housing capital receipts	2,454	2,723
Teachers' pensions return	3,421	9,940
HRA subsidy	3,020	2,327
Control	5,350	6,595
Total fee	69,338	92,701

The fee for completing your grant certification work for 2011/12 is under £70k for the first time, representing a reduction on the original estimate of £85k and a further reduction on last year's cost of £92k. The main reasons for the fee being lower than the original estimate were:

- Fewer claims required certification in 2011/12;
- Generally better prepared claims fewer exceptions identified and effective responses to audit queries;

Although claims preparation arrangements have generally improved, we recommend the Council takes the following steps to improve its support for certification work. As the Audit Commission has mandated that councils must pay a scale fee for all grant certification work in 2012/13, implementation of suggested improvements will reduce the risk of additional audit fees arising in future:

- Ensure that claims assessors receive training to address the specific weaknesses identified during this year's housing benefits audit; and
- Review the application of rent caps to ensure the correct one is applied and thus eliminate the risk of under-claiming subsidy.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's certification work. The Audit Commission made 7 recommendations in its 2010/11 certification of grants and returns report. Good progress was noted in all areas recommended in 2010/11, although recommendations 1 and 2 remain relevant as they are designed to improve the quality and accuracy of the work of housing benefits assessors.

Priority rating for recommendations

1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
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Housing and council tax benefit scheme


Input errors Incorrect rent and income details were input causing a small number of claims to be incorrectly assessed.	The Council risks incurring losses if benefits disbursed in error can not be recharged to the DWP.	1	Ensure that weaknesses identified in this year's audit are addressed when training benefits assessors.	3 All officers are to receive a briefing note on the findings of the 2011/12 Subsidy Audit and the errors identified. This issue related mainly to the accuracy of inputting data and not to lack of knowledge of policies and legislation but officers will be reminded of the importance of accurate input in general and in the fields identified in particular. The briefing will be followed up by a reminder at all team meetings and the Quality Assurance & Support officers will adopt a targeted approach to a sample selection of checks during the following months looking specifically at the areas identified.	Assistant Director, Customer Services
Rent caps The Council is not applying the correct rent cap (inner or outer London) to a limited number of properties on its claims database.	The Council risks being unable to re-claim the correct subsidy in respect of these properties.	2	Review the application of rent caps to ensure the correct one is applied and thus eliminate the risk of under-claiming subsidy.	2 All cases where this issue could apply will be checked by the Subsidy officers before the end of the year to ensure the correct classification for subsidy purposes. The issue has arisen because of the default value of a particular parameter on the back office benefits system. This parameter is correct for 95% of all authorities for cases in this particular subsidy category, but has to be amended in the majority of cases in Brent. The Audit identified one case where this had not been done.	Assistant Director, Customer Services



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	<p style="text-align: center;">Audit Committee 9 January 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance</p>
For Action	Wards Affected: ALL
<p style="text-align: center;">Report Title: ANNUAL GOVERNANCE REPORT – PROGRESS REPORT ON ACTION PLAN</p>	

Forward Plan Ref:

1.0 Summary

- 1.1 This report sets out progress against the recommendations in the Annual Governance Report.

2.0 Recommendations

The Committee is asked to:

- 2.1 Consider the progress report in relation to the action plan.

3.0 Detail

- 3.1 At the Committee's meeting on 27 September 2012 it received the Annual Governance Report (AGR) from the Audit Commission regarding the 2011/12 accounts. The Committee also agreed the Council's action plan in response to the recommendations contained within the AGR.
- 3.2 A report on progress against each recommendation, as requested by the Committee, is set out in Appendix 1.
- 3.3 Five of the recommendations related specifically to the Statement of Accounts. The progress in this area continues to be positive with the actions being embedded in the planning for the closure of the 2012/13 accounts.
- 3.4 The remaining points are closely related to the challenging financial climate within which the Council operates including the need to ensure adequate reserves, meet the demand for school places and deliver procurement savings.

4.0 Financial Implications

4.1 No specific implications.

5.0 Legal Implications

5.1 No specific implications.

6.0 Diversity Implications

6.1 No specific implications

7.0 Staffing Implications

7.1 No specific implications.

8.0 Background Information

8.1 Annual Governance Report – Report to Audit Committee 27 September 2012

9.0 Contact Officer

Mick Bowden

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MICK BOWDEN

Deputy Director of Finance

Annual Governance Report 2011/12 – Action plan

Recommendations

Recommendation 1

Maintain sufficient capacity in the central finance team to enable the efficient preparation of the financial statements, particularly in technical areas such as asset and PFI accounting.

Responsibility	Mick Bowden
Priority	High
Date	31 March 2013
Comments	In line with the approach taken to planning the 2011/12 accounts we will identify areas that need strengthening and reallocate resources accordingly. This will be informed by our own internal review of the 2011/12 process and feedback from the external auditors
Update Dec 2012	Central finance team resource secured through internal appointment to two qualified accountant posts. Planning for 2012/13 closedown, including resource allocation, currently underway.

Recommendation 2

Review the asset register prior to the closure of the 2012/13 accounts to remove spurious assets with no evidence of existence or ownership.

Responsibility	Mick Bowden
Priority	Medium
Date	31 March 2013
Comments	Further work has already been undertaken in this area since the initial audit work was undertaken. The total asset values identified much lower than the estimated maximum and these will be removed from the asset register.
Update Dec 2012	The update of the asset register incorporating these changes and software updates to the system is being undertaken and will be completed by the end of January.

Recommendation 3

Maintain close monitoring arrangements to ensure Internal Audit recommendations are implemented on a timely basis and internal controls are strengthened.

Responsibility	Mick Bowden
Priority	Medium
Date	31 March 2013
Comments	All internal audit recommendations for the key financial systems have agreed action plans including responsible officers and deadlines. I will review progress against these on a monthly basis with the Head of Service responsible to ensure internal controls are strengthened.
Update Dec 2012	The latest position is that eight recommendations have been implemented, eight are in progress and one is no longer relevant due to changes arising from project Athena.

Recommendation 4

Make arrangements to comply with the Council's policy on componentisation in future years.

Responsibility	Mick Bowden
Priority	Medium
Date	31 December 2012
Comments	The approach to componentisation will be agreed with the external auditors and the Council's valuer as part of the early planning for 2012/13 closedown. A clear approach to the valuation process will be set out and adhered to.
Update Dec 2012	A proposed approach has been developed and shared with the auditors.

Recommendation 5

Continue to improve compliance with accounting disclosure requirements.

Responsibility	Mick Bowden
Priority	Medium
Date	31 March 2013
Comments	This will be achieved through reviewing existing requirements to identify any residual issues. We will also consider changes to disclosure requirements being brought in for the 2012/13 and identify the impact of these on our processes.
Update Dec 2012	Review meetings have been held with each individual finance team to identify areas for improvement. The outcome of these is being incorporated into the planning for 2012/13 closedown.

Recommendation 6

Review and update the Council's Anti-Fraud and Corruption Policy.

Responsibility	Simon Lane
Priority	Medium
Date	31 March 2013
Comments	The Anti-Fraud and Corruption Policy is in the process of being reviewed. However, due to the proposed implementation of the Single Fraud Investigation Service from April 2013, there is considerable uncertainty as to how involved the local authority will be in setting policy and procedure for benefit investigations. Given that Housing Benefit fraud is a substantial proportion of the team's work, there will be a delay in producing a new policy until proposals from the Department of Work and Pensions are made clear. We intend to have a new policy in place by 31 st March 2013.
Update Dec 2012	The position regarding Single Fraud Investigation Service has now been clarified by the DWP. A revised framework is expected to be available for approval by the Audit Committee at its meeting in February.

Recommendation 7

Continue to manage the financial position closely and build the level of the General Fund reserve.

Responsibility	Mick Bowden
Priority	High
Date	31 March 2013
Comments	The budget monitoring position for 2012/13 is under close scrutiny. Despite pressures across a number of services there is a clear understanding and discipline across the Council to maintain spending within budget. The final position for 2011/12 means that the Council is £0.2 million ahead of its planned increase in General Fund reserves as set out in the medium term financial strategy. The Council meeting on 25 February 2013 will set the proposed level of reserves, based on an assessment of the financial risks facing the Council.
Update Dec 2012	Latest budget monitoring for 2012/13 indicates that the planned reserves increase of £1m will be delivered.

Recommendation 8

Maintain a corporate focus to embed enhancements to its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.


Responsibility	Fiona Leddon
Priority	High
Date	30 September 2013
Comments	<p>Procurement is the subject of 3 one council projects:</p> <ul style="list-style-type: none"> • Learning and Development - which includes training and development of procurement activity across the organisation. • I-procurement which deals with embedding electronic procurement through a central system which ensures further compliance with procurement processes • A project identifying savings from procurement activity. <p>The use of the Council one programme has enabled this activity to become firmly developed and is assisting in it becoming embedded in the organisation.</p>

Update Dec 2012	<p>Procurement is delivering a suite of 3 one council projects:</p> <ul style="list-style-type: none"> • Training in 'procurement and contract performance management' which is now being delivered across the organisation. The first session was delivered in Nov 2012 in conjunction with learning and development. The initial feedback has been very positive. • 'E-procurement' which is embedding I-procurement (Oracle), E- tendering (Due North) and E-marketplace (EGS) and through the use of automation and standardisation ensures value for money, compliance with legislation and adherence to procurement processes. The implementation of these is being co-ordinated with project Athena which is scheduled for go live in August 2013. • 'Additional operational savings through procurement activity' has made positive progress to identify savings. This has been a product of the investment in category management. The service areas and procurement team have established a good level of dialogue and understanding and agreed an approach to the treatment of such savings. The procurement opportunities are being identified over a three year period with greater certainty applied to those savings in the immediate future. This will allow the council to adopt a planned approach to the identification and achievement of cashable savings.
Recommendation 9	
Continue to explore all options to meet the rising demand for school places in the borough.	
Responsibility	Andy Donald / Krutika Pau
Priority	High
Date	Ongoing with first phase delivered by September 2013.
Comments	The Council's Executive agreed a plan in August 2012 for provision of primary school places, both temporary and permanent, to meet the rising need for places. A report is due in December 2012 which will enable Members to agree plans for new secondary places. The August Executive meeting also agreed an approach to the use of the 'free schools' route to achieving additional school places. Ongoing monitoring and review of the effectiveness of the strategy will take place at officer and member level.
Update Dec 2012	An updated report on progress in delivering school places is being presented to Executive in January 2013. This recognises the need to continue to look at alternative options for funding school places in recognition of the significant resource challenges involved.

Recommendation 10

Continue to embed the risk management arrangements, including undertaking regular reviews of departmental risk registers and relating mitigating actions to operational and financial plans.

Responsibility	Simon Lane
Priority	High
Date	31 March 2013
Comments	Departmental risk registers are already subject to review on a quarterly basis and used as a basis to inform CMT discussion on the corporate register. The highest level operational risks and strategic risks are included in a report to each meeting of the Audit Committee. All key strategic and operational risks are reported to the Policy Coordination Group (PCG) as part of the hotspots process.
Update Dec 2012	Risk registers continue to be reviewed by service areas and by internal audit. The key risks were submitted to PCG in accordance with the quarterly schedule.

	<p style="text-align: center;">Audit Committee 9 January 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance</p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p>2012/13 Mid–Year Treasury Report</p>	

1. SUMMARY

- 1.1 This report updates members on recent treasury activity.

2. RECOMMENDATION

- 2.1 The Committee is asked to note the 2012/13 mid-year Treasury report as also submitted to the Council and Executive.

3. DETAIL

BACKGROUND

- 3.1 The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 3.2 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
- 3.3 Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

ECONOMIC BACKGROUND

- 3.4 Growth rates have fallen across the world in the last six months. The US and Germany continue to grow slowly, but the UK and most European economies have returned to or entered recession. Even the higher performing economies of the Far East and South America are experiencing reduced growth. This global slowdown has kept inflation largely under control, and it is falling quite rapidly in the UK as many of last year's price rises pass through the figures.
- 3.5 Gilt yields fell sharply raising the prospect that very short-dated yields could turn negative. 2-year yields fell to 0.06%, 5-year yields to 0.48% and 10-year yields to 1.45%. Despite the likelihood the Debt Management Office would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended Quantitative Easing (QE) programme; investors preferring the safer haven of UK government bonds to those of European sovereigns; the coalition's commitment to fiscal discipline by sticking to its "plan A" for deficit reduction; large scale purchases by banks to comply with the Financial Services Authority's liquidity buffer requirements; and general risk aversion against a weak economic backdrop. Borrowing rates offered by the Public Works Loans Board (PWLB) to councils fell commensurately.
- 3.6 Money market rates fell over the six month period by between 0.2% and 0.6% for 1-12 month maturities.

DEBT MANAGEMENT

- 3.7 The PWLB remains an attractive source of borrowing for the Council as it offers flexibility and control. In August HM Treasury announced details of the "Certainty Rate" which will enable "eligible authorities" to access cheaper PWLB funding, with a 20 basis point reduction on the standard PWLB borrowing rate. Initially announced in the March 2012 Budget, HM Treasury have introduced this initiative to incentivise local authorities to provide robust forecasts on borrowing plans. This rate will be introduced in November 2012, and Brent has been accepted to receive it.
- 3.8 Alternative borrowing sources: Alternative sources of long term funding to long-dated PWLB borrowing are available, but the Council will continue to adopt a cautious and considered approach to funding from the capital markets as the simplicity and ease of dealing with the PWLB represents a strong advantage. Two long term loans of £10m each have been raised so far this year as is shown in the table below:

	Balance on 01/04/2012 £m	Debt Repaid £m	New Borrowing £m	Balance on 30/09/2012 £m
Short Term Borrowing	26.3	44.3	18.0	0.0
Long Term Borrowing	405.5	1.2	20.0	424.3
TOTAL BORROWING	431.8	45.5	38.0	424.3
Average Rate %	4.45			4.71

- 3.9 No debt rescheduling has been considered in the last half year as present discount rates make the premia involved unattractive.

INVESTMENT ACTIVITY

- 3.10 The Council gives priority to security and liquidity and aims to achieve a yield commensurate with these principles.

	Balance on 01/04/2012 £m	Investments Made £m	Investments Repaid £m	Balance on 30/09/2012 £m
Short Term Investments	43.8	1,520.7	1,495.1	69.4

- 3.11 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. New investments were made with the following institutions:

Other Local Authorities;
AA- rated banks;
AAA rated Money Market Funds;
The UK Debt Management Office.

- 3.12 Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of AA- (or equivalent) across rating agencies Fitch, Standard & Poors and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms; potential support from a well-resourced parent institution; share price.

BUDGETED INCOME AND OUTTURN

- 3.13 The Council's budgeted investment income for the year has been estimated at £0.1m. The average cash balances, representing the Council's reserves and working balances, were £95m during the period. At present, the Council appears likely to achieve this figure.
- 3.14 The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2015/2016. Short-term money market rates have remained at very low levels.

ICELANDIC BANK INVESTMENT UPDATE

- 3.15 The following has now been resolved in relation to Icelandic deposits:

Iceland-Domiciled Banks

- 3.16 On 28 October 2011 the Icelandic Supreme Court ruled that UK local authority claims in the administrations of Glitnir and Landsbanki qualified as priority claims under Icelandic bankruptcy legislation, confirming the earlier decision of the Reykjavik District Court.

- 3.17 This means that the values of local authorities' claims in the Icelandic administrations qualifying for priority settlement are now final and will, at the very least, be equal to the value of the original deposit plus interest accrued to the maturity date. After the decision of the Icelandic Supreme Court had been delivered, the Winding Up Board of Glitnir made a distribution to priority creditors, which included local authorities. This was accepted by all UK local authorities and implemented on 16 March 2012. The distribution currencies were Icelandic kroner, Euros, US dollars, pounds sterling, and Norwegian krona. The Icelandic kroner are held in an interest bearing account in Iceland pending the lifting of exchange controls. This means that, of the £5m which Brent deposited with Glitnir, £4m has now been recovered.

Non-Iceland-Domiciled Banks

- 3.18 It is expected that over £9m of the original £10m deposit will be recovered. Almost £7.5m has been recovered to date, and a further £0.5m-£0.8m is expected by 31 March 2013.

COMPLIANCE WITH PRUDENTIAL INDICATORS

- 3.19 The Council can confirm that it has complied with its Prudential Indicators for 2012/13, which were set in February 2012 as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.

OUTLOOK

- 3.20 At the time of writing this activity report in October 2012, economic growth remains elusive. Tight credit conditions and weak earnings growth are constraining consumer and corporate spending. The outlook is for official interest rates to remain low for an extended period, as shown below.

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

SUMMARY

- 3.21 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2012/13. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4. FINANCIAL IMPLICATIONS

These are covered in the report.

5 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8 BACKGROUND

Annual Treasury Strategy – Report to Full Council (and the Audit Committee) as part of the Budget Report – February 2012.

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, on 020 8937 1472/74 at Brent Town Hall.

MICK BOWDEN
Deputy Director of Finance

ANTHONY DODRIDGE
Head of Exchequer and Investment

Appendix 1

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2012/13 to 2014/15 are shown in the table below:

	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
CFR	537	598	594	591

Usable Reserves

Estimates of the Council's level of Usable Reserves for 2012/13 to 2014/15 are as follows:

	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
Usable Reserves	58	37	30	24

Prudential Indicator Compliance

Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Authorised Borrowing Limit. This is a statutory limit which should not be breached. The Council's Authorised Borrowing Limit was set at £823m for 2012/13. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2012/13 was set at £723m. The Deputy Director of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £432m.

Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2012/13
Upper Limit for Fixed Rate Exposure	100%
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	40%
Compliance with Limits:	Yes

Interest Rate Exposures	Level at 31/03/12	2012/13 Approved	Actual 30/09/12
Fixed			
Upper Limit for Fixed Interest Rate Exposure on Debt	89%	100%	89%
Variable			
Upper Limit for Variable Interest Rate Exposure on Debt	11%	40%	11%

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/09/12 £m	% Fixed Rate Borrowing as at 30/09/12	Compliance with Set Limits?
Under 12 months	40	0	3.9	1	Yes
12 months and within 24 months	20	0	3.9	1	Yes
24 months and within 5 years	20	0	11.8	3	Yes
5 years and within 10 years	60	0	25.3	6	Yes
10 years and above	100	0	379.4	89	Yes

Gross and Net Debt

The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need.

Upper Limit on Net Debt compared to Gross Debt	31/3/12 Actual £m	31/3/13 Estimate £m	Limit
Outstanding Borrowing (at nominal value)	405.5	490	823
Less: Investments	43.8	20	0
Net Debt	361.7	470	823

Net Debt and the CFR

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and next two financial years.

The Authority had no difficulty meeting this requirement so far in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

The limit for 2012/13 was set at £20m.

The Council's practice since the onset of the credit crunch in 2007 has been to keep investment maturities to a maximum of 12 months. No investments were made for a period greater than 364 days during this period.

Credit Risk

This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk:


Published credit ratings of the financial institution and its sovereign;
Sovereign support mechanisms;
Credit default swaps (where quoted);
Share prices (where available);
Economic fundamentals, such as a country's net debt as a percentage of its GDP;
Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with a minimum long term credit rating of AA- or equivalent, as set in the 2012/13 TMSS.

HRA Limit on Indebtedness

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

HRA Limit on Indebtedness	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
HRA CFR	137	141	141	141
HRA Debt Cap (as prescribed by CLG)	199	199	199	199
Difference	62	60	60	60

	<p style="text-align: center;">Audit Committee 9 January 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance and Corporate Services</p>
For Information	Wards Affected: ALL
Report Title: 2nd Internal Audit Progress Report 2012/13	

1. Summary

- 1.1. This report summaries the work of Internal Audit and the Investigations Team from 1st April 2012 to November 30th 2012. The attached report provides further details of this together with assurance ratings of reports issued.

2. Recommendations

- 2.1. That the Audit Committee notes the progress made in achieving the 2012/13 Internal Audit Plan and the review of fraud work.

3. Detail

Audit

- 3.1. The Internal Audit Plan for 2012/13 comprises 1,200 days, of which 905 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 295 to the in-house team.
- 3.2. A total of 756 days have been delivered against the overall Plan, made up of 576.5 Deloitte PSIA days and 179.5 days in-house days. This represents 63% of the Plan and represents an improvement when compared to 2011/12 when delivery at the same stage was 51%.
- 3.3. A summary report setting out the completed audit work is attached as Appendix 1. The status of all projects planned is set out in table 1 below:

Table 1 – Internal Audit Delivery Status

Audit	Planned Days	Total Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Corporate/Cross Cutting								
Appointment of Consultant and Non Comensura Temporary/Interim Staff	10	7	Work In Progress					
Comensura	15	15	Final Report	Limited	4	6	-	15/09/2012
Corporate/Cross Cutting Total	25	22						
Finance and Corporate Services (FCS)								
Council Tax	15	0.5	Q4					
Reform of National Non Domestic Rates (NNDR)	5	1	Q3/4					
NNDR	15	0.5	Q4					
Reform of Council Tax Benefits	10	0	Q4					
Housing and Council Tax Benefits	20	18	Work In Progress					
Treasury Management	10	8	Work In Progress					
Payroll	20	16	Work In Progress					
Accounts Payable	15	15	Final Report	Limited ←	3	5	1	14/12/2012
Accounts Receivable	15	15	Final Report	Substantial →	1	7	1	17/12/2012
General Ledger	15	15	Final Report	Substantial →	1	1	-	14/12/2012
Cash and Banking	15	10	Work In Progress	Substantial				17/12/2012
Pension Fund Administration	20	20	Final Report	Substantial ↔	-	6	1	06/09/2012
One Council Project – Project Athena	10	2.5	Attendance at various Athena meetings (2* Managers)					
Once Council Project – Customer Service	0	0	Withdrawn following a meeting with the Head of Service. 12 to 0.					
Staff Expenses (Contingency days used)	20	20	Final Report	N/A	8 Action Points have been raised and agreed.			14/12/2012
Financial Planning	15	0	Draft Report					
FCS Total	220	141.5						
Children & Families								
School Audits	Total							
Primary/Junior Schools	150							
Chalkhill Primary	10	0	Final Draft Report	Limited	6	11	1	02/08/2012
Our Lady of Grace Infants	10	0	Q4					

Audit	Planned Days	Total Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Woodfield	10	0	Q4					
Furness	10	0	Q4					
Lyon Park Juniors	10	12	Final Report	Substantial	1	9	-	15/09/2012
St Mary's CE	10	12	Work in Progress					
Oliver Goldsmith	10	11	Final Report	Substantial	3	5	5	14/12/2012
Convent of Jesus and Mary	10	8.5	Work in Progress					
Elsley	10	10	Final Report	Substantial	3	5	2	13/12/2012
Roe Green Infants	10	10	Final Report	Substantial	1	10	0	13/12/2012
Roe Green Juniors	10	10	Final Report	Substantial	1	10	1	13/12/2012
Sudbury	0	0	Withdrawn as the School is now Academy					
St Joseph Junior	10	9	Draft Report	Substantial	2	5	3	18/12/2012
St Joseph Infants	10	9	Draft Report	Substantial	1	5	1	18/12/2012
St Joseph's RC Primary	10	10	Final Report	Substantial	2	3	2	22/11/2012
Newfield	10	15	Draft Report	Substantial	2	11		07/12/2012
St Mary Magdalen	10	9	Final Draft Report	Substantial	4	4	2	26/11/2012
Stonebridge	10	9	Final Draft Report	Limited	11	8	-	09/10/2012
Torah Temimah	10	11	Final Report	Nil	16	7	-	21/11/2012
Newman CC (Secondary)	10	0	Q4					
Preston Manor (Secondary)	10	9	Draft Report	Limited	10	16	-	03/12/2012
St Gregory's (Secondary)	5	7	Work in Progress					
The Village (Special)	10	0	Q4					
Manor (Special)	3	3	Final Report	Non Assurance Work.				31/08/2012
Follow up of limited assurance Schools	20	9	Throughout the year.					
Safeguarding of Children	15	2	Postponed to Q4 due to appointment of new Head of Service. Audit Brief prepared and issued to current Head					
School CRF Data Analysis	2	1						
School Additional Days	9	0	See above for relevant schools - Torah Temimah (1), St Mary's CE (2), St Gregory's (2), Oliver Goldsmith (1), Lyon Park (2), newfields (1)					
Children & Families Total	264	176.5						
Environment & Neighbourhood (EN)								
Parking Enforcement	20	0	Q4					
Olympics	10	10	Final Report	Non Assurance Work.				27/07/2012
Libraries	15	2	Q4					
EN Total	45	12						

Audit	Planned Days	Total Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Customer & Community Engagement								
Mayor's Office	8	8	Final Report	Limited	5	1	-	15/09/2012
Language Shop	12	12	Final Report	Limited	4	2	-	17/09/2012
Customer & Community Engagement Total	20	20						
Adult Social Services								
Mental Health Partnership	20	20	Final Report	Limited	7	1	-	10/09/2012
Home Care	15	0	Q4					
Appointeeship, Receivership, and Power of Attorney	20	25	Final Report	Limited	15	9	1	29/08/2012
Personalised Budgets and Direct Payments	20	10	Work in Progress					
HCC Total	75	55						
Legal and Procurement								
Procurement	0	0	This is covered under the Athena Project and withdrawn from the plan.					
High Value Contracts – Compliance with the Blue Book	20	20	Final Report	Limited	6	3	-	25/07/2012
Legal and Procurement Total	20	20						
Regeneration and Major Project (RMP)								
Capital Projects (contract audits)	30	0	Q4					
Civic Centre Project (Move to the Civic Centre)	10	10	Final Report	Non Assurance Report				14/09/2012
Housing Solutions (Choice based letting/housing allocations)	15	0	Q4					
Building Control and Enforcement	15	17	Final Report	Substantial	3	13	-	16/11/2012
RMP Total	70	27						
Strategy, Partnership, and Improvement (SPI)								
Partnership Management	10	10	Final Report	Substantial	-	2	-	21/09/2012
Public Sector Reform – Policy and Key Legislative Changes	15	15	Final Report	Substantial	-	1	-	21/09/2012
SPI Total	25	25						
Computer Audit								
Oracle Financials Application Audit	0	0	Withdrawn due to Project Athena. 10-0					
Northgate Sx3 Housing Benefits System	10	9	Draft Report	Limited ←	3	6	1	28/11/2012

Audit	Planned Days	Total Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Automated Customer Contact - Web Enhancement Project Pre-implementation audit (One Council Project)	10	9	Draft Report	Limited	2	6	-	13/12/2012
Abacus	0	0	Withdrawn as the system is now due to be decommissioned next year. 10-0					
IT Service Management (Information Technology Infrastructure Library ITIL, V3 Gap Analysis)	15	14	Draft Report	Limited	1	6	2	03/12/2012
Wireless Networks	15	10	Work in Progress					
Virtual Desktop Infrastructure (VD)	20	0	Throughout the year.					
Civic Centre IT Controls	20	3	Senior Computer Audit Manager to attend IT projects for Move to Civic Centre Project meeting.					
Follow up of previous IT audits	12	5	Throughout the year.					
New audit to replace Oracle and Abacus	20	0						
	0	0						
Computer Audit Total	122	50	*Plus 10 days delivered on V5 (BHP) Total Computer Audit days = 132 days.					
Others								
Risk Management	10	7						
Consultation, Communication and Reporting	55	45						
Follow up	55	34						
Office Move	14	16						
Contingency	24	0						
	158	102						
BHP								
Housing Repairs and Maintenance	12	1	Q4					
Housing Rents	8	8	Final Report	Substantial ↔	1	1	3	14/12/2012
Major Works Contracts	20	10	Work In Progress					
Procurement & Contracts (Non Major Works)	15	15	Final Report	Substantial	2	3	-	04/10/2012
Treasury Management	8	0	Q4					
Internal Financial Controls	10	0	Q4					
Rent Arrears Management	15	15	Draft Report	Substantial ↔	1	2	2	17/12/2012
Tenant Management Organisations – Watling Gardens	15	15	Final Report	Limited ⇒	7	8	1	30/10/2012

Audit	Planned Days	Total Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Management of Non-Brent Properties	15	14	Draft Report	Limited ↔	2	4	-	17/12/2012
TMO – South Kilburn TMO	0	6	Final Report	Non-Assurance work	2	8		08/11/2012
Risk Management	8	1	Work In Progress					
V5 System (Housing Rents)	10	10	Final Report	Limited	1	10	1	28/11/2012
Consultation and Management Days	20	10	Throughout the year.					
BHP Total	156	105						
Total	1200	756						

Delivery Status	
Total days in the plan	1200
Number of days delivered to date	756
% of days delivered to date	63%
Days to be delivered	444
Total number of projects in 2012/13 plan (excluding follow up reports and Committee reports)	73
Number of reports issued to date	43
% of reports issued to date	59%

Housing Benefit Fraud

- 3.4. At the last committee meeting it was reported that the DWP intended to create a Single Fraud Investigation Service (SFIS) to investigate all welfare benefit fraud from April 2013 and that council investigators would be working to a single national policy and procedure. In December 2012 the DWP announced that, whilst they intend for all investigations into benefit fraud to be “badged” as coming under the umbrella of a SFIS, there is no intention to impose a single national policy and procedure from April 2013. This is a significant change. The DWP have stated that only four pilot authorities will be required to work to a single national procedure and will test this with a view to national roll out in April 2014. Therefore, the council is free to continue to investigate housing benefit fraud within its own policy and procedural framework.
- 3.5. The team continues to receive a high volume of housing / council tax benefit fraud referrals and many have to be screened out without investigation. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. Those which are not screened out are passed for investigation. An investigation will be closed once there is sufficient evidence to establish that a fraudulent overpayment of benefit has occurred and a sanction has been applied or no further action is warranted. Investigations range in length from a few months to many years for complex prosecutions.

- 3.6. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty of 30% of the overpayment and criminal prosecution. To date the team have completed investigations into 119 cases and identified fraud in 51. Overpayments in excess of £1m have been identified resulting in 12 prosecutions and 14 administrative penalties. Historical case load data and current performance is shown below:

		2012/13	
HB Fraud	20011/12	Q1	Q2
Referrals	612	276	143
Closed	597	164	210
Screened Out	339	103	157
% dropped	57%	63%	75%
Investigated	258	62	57
Fraud Found	102	25	26
Hit Rate	40%	40%	41%
Caution	3	0	0
Admin Penalty	28	4	10
Prosecution	30	9	3
Total Sanctions	61	17	13
Overpayment Only	40	12	13
HB/CTB Overpayment	£1,435,073	£618,338	£394,604

Table 2 – HB Fraud Caseload 2012/2013

- 3.7. High value fraud cases include:
- Claimant A, who used false tenancies and fictitious children to fraudulently claim some £200,000 in HB and CTB. After a lengthy investigation into multiple claims and addresses, she was prosecuted by the council and, after pleading guilty, received a 27 month custodial sentence in May 2012. A financial investigation for the purposes of the proceeds of crime act is currently in progress.
 - Claimant B, who set up claims in two false identities and travelled from Manchester to collect benefit in respect of tenancies in Brent and Wales. The case was initially investigated by the council and referred to the DWP organised fraud team for prosecution. The council's loss was £85,000 in HB and CTB although losses to the DWP were far higher. Mooney received an 18 month sentence in May 2012. The council has received £33,000 in compensation as a result of a confiscation hearing.
 - Claimant C claimed £71,000 falsely, as a single person when living with her partner. She was sentenced in May 2012 to 18 months in custody.

Social Housing Fraud

- 3.8. Social housing fraud occurs due to the sub-letting of council properties and false declaration of circumstances on housing and homeless applications. The council has taken tenancy fraud seriously for many years. Since 2000, investigation work by A&I has resulted in the recovery of 367 properties and prevented almost 90 inappropriate Right to Buy applications. The Audit Commission currently estimates that each unlawfully sub-let council property results, on average, in a financial loss of some

£18,000 per annum. This year, to date, the team has recovered 37 properties.

3.9. Caseload information is shown below.

			2012/13		
Housing Fraud	2011/12		Q1	Q2	
Referrals	189		43	29	
Closed	185		54	31	
Screened Out	13		1	0	
Investigated	172		53	31	
Fraud Found	48		17	11	
Recovered Property	47		16	11	
RTB Stop	1		0	0	
Application refused	0		0	0	
Property Reduced			1	0	

Table 3 – Housing Fraud Caseload

Blue Badge Fraud

3.10. There have been seven new reactive referrals in the second quarter of 2012/13 within the more serious categories. Eleven investigations have been completed, with misuse found in five cases, all of which received a warning.

Internal Fraud

3.11. Internal fraud refers to fraud committed by employees, agency staff and staff in schools. For the purposes of this report, “fraud” includes any financial irregularity or malpractice or serious breach of financial regulations or the staff code of conduct.

3.12. Historic data and current year statistics are shown in the tables and charts below:

			2012/13		
Internal	2011/12		Q1	Q2	
Referrals	58		9	5	
Closed	62		9	4	
Screened Out	5		0	0	
Investigated	57		9	4	
Fraud / Irregularity	33		4	1	
Dismiss / Resign	27		4	1	
Warning	5		0	0	

Table 4 – Internal Fraud Caseload 2012/13

3.13. During the last quarter, one officer resigned pending a disciplinary hearing into their involvement in a false benefit application.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. Background Papers

1. REPORT FROM THE DIRECTOR OF FINANCE – INTERNAL AUDIT PLAN FOR 2012/13, Audit Committee 27th June 2012

8. Contact Officer Details

Simon Lane, Head of Audit & Investigations, Room 1, Town Hall Annexe.
Telephone – 020 8937 1260

Mick Bowden

Deputy Director of Finance and Corporate Services

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**Internal Audit
Progress Report 2012/13
London Borough of Brent
January 2013**

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Executive Summary

Introduction	<p>This report sets out a summary of the work completed to date against the 2012/13 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.</p> <p>Those audits reported on at previous meetings have been removed, but reference can be made to the full list of assurance opinions in the cover report.</p>
Summary of Work Undertaken	<p>A range of audits have been undertaken since the last meeting, comprising both financial and non-financial systems, some One Council Projects and work across the schools.</p> <p>The Final Reports issued since the last meeting relate to the following areas, with further details of these provided in the remainder of this report:</p> <ul style="list-style-type: none">• The Language Shop• Pension Administration• Partnership management• Public Sector Reform – Policy and Key Legislative Changes• Building Control and Enforcement• Appointeeship, Receivership, and Power of Attorney• Accounts Receivable• Accounts Payable• General Ledger• Staff Expenses Testing• Roe Green Junior School• Roe Green Infants School• Elsley School• Oliver Goldsmith School• St Joseph's Primary RC School• Torah Temimah• BHP V5 (Housing System Application Audit)

- BHP Tenant Management Organisations (Watling Gardens)
- BHP Tenant Management Organisation (Kilburn Square TMO)
- BHP Procurements (Non Major Works)
- BHP Housing Rents

One Council Project

Web Enhancement Project

Since the last meeting a computer audit of the web enhancement project (automated customer contact) was undertaken. The Web Enhancement project is taking place as part of the Council's One Council IT Programme and the project is expected to improve the customer service experience of the brent.gov.uk website and streamline the procedure for managing the content of the website. The project is expected to go live in January 2013 and actions against our recommendations are being agreed at the time of writing this report in December 2012.






Project Athena

The Council is currently working with the other local authorities in preparation for the launch of the new Oracle system which will be operated using new operational procedures and Oracle Cloud from August 2013. The Audit Managers have attended the Finance Implementation Team (FIT) meeting for the first time in early December and they will continue to attend the meetings until the project launch. In addition, as part of this, the Audit Managers will work with the FIT in respect of Governance Risk Compliance.

Summary of Assurance Opinions and Direction of Travel

A summary of the assurance opinions and direction of travel assessments is as follows, as compared to the previous two financial years.

Assurance Opinions

	Full  	Substantial 	Limited 	None 
2010/11	-	71% (29)	29% (12)	-
2011/12	-	42% (22)	50% (26)	8% (4)
2012/13	-	60% (12)	35% (7)	5% (1)

Direction of Travel

	Improved →	Unchanged ↔	Deteriorated ←
2010/11	5	4	-
2011/12	5	4	2
2012/13	2	1	1

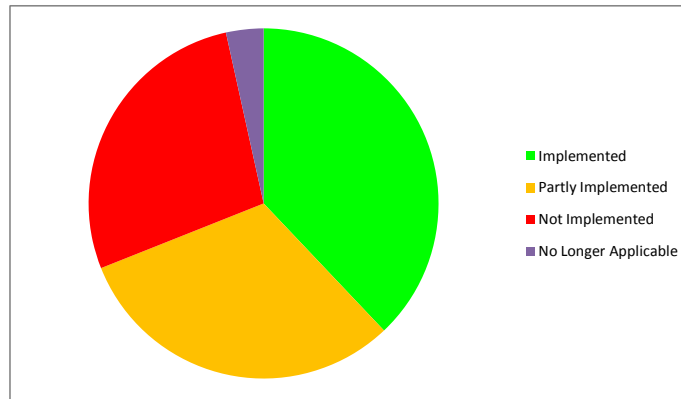
For the Committee's reference, the definitions of the assurance opinions and direction of travel assessment are included at Appendix A.

Follow-Up of Previously Raised Recommendations

As part of our rolling programme, all recommendations are being followed-up with management, as and when the deadlines for implementation pass. This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any priority 1 recommendations.

The current level of implementation is as per the chart on the following page. Of the recommendations followed-up, 72% had either been fully or partly implemented, or are no longer applicable due to changes in the scope of operations. Of the priority 1 recommendations, 70% had either been fully or partly implemented. Whilst the implementation rates are relatively low, one of the key reasons provided by management is that the recommendations will need to be implemented in line with the major changes taking place such as the Athena project.







Implementation of Recommendations



Detailed summary of work undertaken

FULL / SUBSTANTIAL ASSURANCE REPORTS

Only the assurance opinion and direction of travel is being reported on for those audits for which Substantial Assurance was given. The Committee's focus is directed to those audits which received a Limited Assurance opinion.

Audit	Assurance Opinion and Direction of Travel
Pension Administration	
General Ledger	
Accounts Receivable	
Partnership Management	
Public Sector Reform – Policy and Key Legislative Changes	
Building Control and Enforcement	

Audit	Assurance Opinion and Direction of Travel
SCHOOLS	
Roe Green Junior	S
Roe Green Infants	S
Elsley	S
Oliver Goldsmith	S
St Joseph's Primary RC	S
BHP	
Procurements (Non Major Works)	S
Housing Rents	S

LIMITED ASSURANCE REPORTS – General Audits

For all Limited Assurance reports, we have included a brief rationale, together with details of any **priority 1** recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective. The only exception is for any BHP reports, for which the details have been reported separately to the BHP Audit & Finance Sub-Committee.

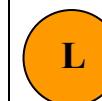
Accounts Payable

Overall, management have continued to work with Service Areas (SAs), taking steps to embed and improve the control processes relating to payments. However, weaknesses were identified in respect of supplier bank account changes and CHAPS payments.

The Direction of Travel provides a comparison with any prior audit visit. In this case the arrow indicates that the assurance level has deteriorated since the last audit visit when a substantial assurance was given. As indicated above, the overall payment process has remained the same and the main factor affecting the assurance level was around supplier bank account changes.

It should be noted that given the current economic climate and the major transformations taking place within the Council both staffing structure and process modifications, there is an increased risk of fraud and it is key that the controls relating to payments are robust. With the increased potential of fraud, the Council must ensure that the control environment is kept under close review and management should respond promptly to any emerging issues such as fraudulent requests to amend bank account details.

Three priority 1, five priority 2, and one priority 3 recommendations were raised.



Recommendation	Management Response / Responsibility / Deadline for Implementation
When requests are received to change supplier bank details, checks should be undertaken in all cases to determine legitimacy of such requests. The checking process should include contacting the supplier using historic contact details and not details provided to the Council in the request to change bank details. If any queries are identified the request should be rejected	Central Finance /FSC will re-define the process in accordance with the audit findings. An electronic checklist will be developed for the administrator to ensure all necessary steps are taken during and supplier changes. Going forward, the new Governance Risk Compliance module which is to be implemented for August 2013 will add greater control to the process. The Systems Accountant will discuss requirements with

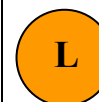
Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>and the matter escalated.</p> <p>The System Administrator should only approve supplier bank detail changes once an independent confirmation is received from the supplier through the method indicated above.</p> <p>In addition, consideration should be given to whether a report template can be designed to extract changes to supplier bank details and a senior officer should review bank account changes to check the compliance with the above.</p>	<p>Internal Audit.</p> <p>Head of Financial Management</p> <p>March 2013</p>
<p>The list of staff with access to the supplier management system should be reviewed periodically.</p> <p>In addition, where alternative line manager are selected to approve changes to or creation of suppliers, the default line manager should be notified by the system that the request has been raised.</p>	<p>The list of approvers and requesters will be reviewed and cleansed. Additionally, this will be reviewed on a periodic basis going forward. Corporate Finance will review with IT development of notifications to default approvers.</p> <p>Head of Financial Management</p> <p>March 2013</p>
<p>All CHAPS payments should be requested using CHAPS payment request pro-forma and that these should be signed off by the relevant approver following their authorisation of the payment request.</p> <p>In addition, documentations supporting CHAPS payments requests such as invoice should be held on file.</p>	<p>Corporate Finance / Treasury will issue a standard CHAPS form and will enforce the retention of backing papers.</p> <p>Head of Financial Management</p> <p>March 2013</p>

Language Shop

The key areas of weaknesses related to the compliance with the HMRC requirements for self employed status of interpreters and translators and evidence of rights to work in the UK. In addition, there is a need for management to review the current arrangement in respect of internal requests. The Business Manager indicated that due to the costs no longer being recharged, the services are now seen as free services by the Service Areas and the costs have been increasing since the internal charging has ceased. Another area of weakness related to service guidelines and Code of Practice for translators.

The Direction of Travel provides a comparison with any prior audit visit. In this case the lack of an arrow indicates that this area has not been audited previously.

Four priority 1 and two priority 2 recommendations were raised



Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>Service guidelines for translators should be developed and the Code of Practice for translators should be put into use.</p> <p>A Translator's Agreement should also be put in place for the translators to sign.</p> <p>In addition, the Language Shop Co-ordinators should check that the signed agreement for both translators and interpreters is received before assigning any works.</p>	<p>The Code of Practice for Translators is currently sent to new translators for information only but is not signed. We agree to ensure the Code of Practice for Translators is signed in future and a scanned copy kept on individual personnel files.</p> <p>Translator Co-ordinator To commence on the 1st October 2012</p>
<p>An approval mechanism should be put in place to validate job requests from Service Areas.</p> <p>This should be formally communicated to the Heads of Services and any requests without a required approval should be sent back to the requester.</p> <p>Management should also consider whether a process should also be put in place to instigate a consultation with the Service Area when the costs associated with their requests exceed the amounts vired to set the budget.</p> <p>In addition, the Language Shop Guidance should be reviewed and updated to reflect the above and any other amendments</p>	<p>Language Shop agree this recommendation only for British Sign Language requests. All other interpreting requests are approved at service area level, it would be a waste of resource to dedicate Language Shop officer time into sighting all these approvals prior to the booking being accepted.</p> <p>A quarterly report is being provided to service areas by the Business Manager for 2012/13 which itemises spend by service area against budget. This process will be used to instigate a formal consultation with Service Areas.</p> <p>Business Manager</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
required.	<p>To commence on the 1st October 2012</p> <p><u>AUDIT COMMENT</u> Given that British Sign Language requests cost significantly more than any other translation and interpretation services, we accept that the Language Shop will focus on those.</p>
<p>The Language Shop should confirm the submission of the following documents prior to assigning any works:</p> <ul style="list-style-type: none"> • Original passports/home office documentation (for both interpreters and translators); and • Completed Declarations of Spent Convictions (for interpreters). 	<p>This is already in operation for interpreters. The four missing passports copies from personnel files have not yet been filed but will be on file by 19 November. Personnel files older than 7 years will not be reviewed. All new interpreters from 2010 onwards have had this completed.</p> <p>The Language Shop do not meet translators as all bookings are done via telephone and e-mail and translators can be based anywhere in the world. They do produce evidence of self-employed status so are eligible to work in the UK.</p> <p>Interpreting Co-ordinator 17 November 2012</p> <p><u>AUDIT COMMENT</u> On the basis of the comment provided above in respect of seeking evidence of self-employed status for translators, we are not raising any further actions as necessary.</p>
<p>The Language Shop should liaise with the Council's Exchequer Services to seek professional advice regarding the employment status of the interpreters and translators.</p> <p>In response to our query, the Exchequer Services stated the following:</p> <p><i>Confirmation/support of self employed status requirements usually include:</i></p>	<p>We agree to ensure a copy of the insurance cover for Translators is requested and attached to the copies of the self employment questionnaire. This is necessary for complex legal documentation only rather than standard translation requests. It is not mandatory so this will not be requested for interpreters but if it is provided it will be attached to the form, otherwise N/A will be stated.</p>

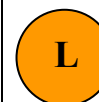
Recommendation	Management Response / Responsibility/ Deadline for Implementation
<ul style="list-style-type: none"> • <i>A clear service description (i.e. outlining what service the individual will provide)</i> • <i>Details of the time frame to the engagement.</i> • <i>Confirmation of the expertise being bought in (qualification).</i> • <i>Details of the agreed project fee.</i> • <i>Substitute clause (One of the assessment aspects HMRC look at is who controls the engagement. If the translators or interpreters are not allowed to use a substitute on their discretion, the Language Shop will need to be able to support why the Council would control this aspect of the engagement.)</i> • <i>Retention of a copy of Insurance cover in the individual's name.</i> 	<p>Co-ordinators To commence on the 1st October 2012</p> <p><u>AUDIT COMMENT</u></p> <p>With regards to Interpreters, the Language Shop should be reminded that the Council is required to check that any self employed individuals working for the Council have adequate insurance arrangements and we are not aware of any specific exemptions for self employed interpreters. The Language Shop should ensure that they continue to be satisfied that the employment/self employment status of both interpreters and translators are correctly assessed and the statutory and Council's requirements in respect of appointing self employed individuals are fulfilled.</p>

Appointeeship, Receivership, and Power of Attorney

The key areas, for which recommendations have been raised are as follows: lack of a Council policy on Appointeeship and Deputyship; issues in relation to security of client's personal property; transactions not posted to deputyship clients on a timely basis and reports from Oracle not produced on a timely basis; supporting documentation not always retained or scanned onto Frameworki; officer who has left the Council not removed from list of cheque signatories; reconciliation of ResFunds not undertaken; and annual reports not submitted to Office of Public Guardian within the predetermined timescales.

The Direction of Travel provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives were the same. In this case the arrow indicates that the assurance level has deteriorated since the last audit visit.

Fourteen Priority 1; nine Priority 2 and one Priority 3 recommendations were raised.



Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>Management should develop a Council policy with regards to Appointeeships and Deputyships which is in line with legislation and good practice.</p> <p>Once developed the policy should be approved by the Full Council or the Executive and made available to all relevant officers.</p> <p>It is further recommended that the management should adopt the best practice guidance on Deputyships produced by the Association of Public Authority Deputies (APAD).</p>	<p>Agreed.</p> <p>A policy will be drafted by the senior finance officer and team manager for the approval of the Assistant Director of Finance Adult Social Services. The policy will be agreed by the Assistant Director of Finance.</p> <p>CFT are aware that a best practice guide has been in development by APAD. Now that this has been published we will update our procedures where they differ from the guidelines.</p> <p>Policy: Senior Finance Officer / Team Manager – 31/01/13 Updating procedures: Senior Finance Officer - 31/01/13</p>
<p>Interim arrangements should be put in place where there are delays in obtaining approval from the DWP or Court of Protection for the Council to be appointee or deputy for a client.</p>	<p>Agreed.</p> <p>Brent Council have certain duties under Section 48 of the National Assistance Act to protect client's personal property.</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
	<p>This is now managed by an officer within our team. If there are urgent issues raised at the case referral stage such as financial abuse accusations, or court proceedings for non-payment of liabilities, then CFT will act as quickly as possible to mitigate those circumstances. We take instructions from Adult Social Services teams where urgent action is required. We will also advise them of any safeguarding issues we find. This response is linked to recommendation 18. Adult Social Services have a duty to assess and provide care services; however their role is outside the scope of this audit.</p> <p>Client Finance Team / Adult Social Services - 31/12/12</p>
<p>The personal property of deputyship and appointeeship clients should be collected, receipted, and recorded in the presence of two officers prior to being placed in the Client Property Safe. The officers involved in the process should be required to indicate their names and job titles in full.</p> <p>An audit of contents in the safe should be undertaken on an annual basis by a person independent of the collection; receipting and recording of clients' personal property.</p> <p>Any property belonging to an appointeeship or deputyship client should be removed from the safe in the presence of two officers.</p> <p>The property logs for all clients with personal property held in the Council's safe or Safe deposit box should be properly completed.</p>	<p>Agreed.</p> <p>The recommendations put forward here will be implemented straight away. Internal procedures will be brought up-to-date and amended where necessary. A safe audit will be conducted by the end of the year.</p> <p>Complying with procedures: all CFT staff - Immediate Updating procedures: Senior Finance Officer – 31/12/12</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>Transactions in respect of deputyship clients should be posted onto the Quicken system on a timely basis.</p> <p>Management should ensure that there are adequate resources in place for the administration of the appointeeship and deputyship client accounts.</p>	<p>Agreed.</p> <p>The audit was conducted during our annual review process. At this time of year priority is given to the reassessment process, which usually lasts between April – June. Other critical processes within CFT are also postponed during this time. It is accepted that transaction posting was behind schedule at the time of the audit. However transaction posting is usually completed on a monthly basis and signed off by the Team Manager. Transaction posting is now up-to-date.</p> <p>We will address this issue in the following ways: (1) There is a team restructure pending which we hope will allow us to conduct the April annual review in a shorter time thus stopping other work from falling behind. (2) We are currently considering a new software package that will simplify transaction processing. (3) The senior finance officer will use calendar reminders each month.</p> <p>Calendar reminders: Senior Finance Officer – 31/10/12 Team restructure / software changes – 31/03/13</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>The Business Partner Team should be reminded to provide the Client Finance Team with reports from Oracle indicating payments made on behalf of appointeeship & deputyship clients on a monthly basis.</p>	<p>Agreed.</p> <p>Response from the Business Partner Team: Monthly reports will be provided to the Client Finances Team on a monthly basis.</p> <p>Business Partner Team – Immediate and monthly</p>
<p>All documentation pertaining to each Appointeeship and Deputyship application should be properly retained.</p>	<p>Agreed.</p> <p>Appointee clients – Previously only parts of the BF56 application form were scanned and kept. The DWP were asked to provide a BF57 in each case but missing forms were only followed up if needed. A complete copy of the BF56 will now be scanned and kept, along with the referral form and support plan. All missing BF57 forms will be followed up with the DWP.</p> <p>Deputy clients – The sample selected in the audit included some cases with missing information. This point is accepted. All current and future application to the Court of Protection are scanned after they have been signed by the Deputy and are saved as a single file. The same applies to statutory returns. All correspondence is scanned and held electronically.</p> <p>Senior Finance Officer – 31/10/12</p>
<p>Evidence should be maintained of the spot checks undertaken by the Senior Finance Officer on a sample of expenses incurred on behalf of appointeeship & deputyship clients by both Homecare Agencies and residential care homes.</p>	<p>Agreed.</p> <p>We propose that evidence of spending by Homecare Agencies and residential care homes is monitored quarterly. Missing returns will be followed up and may ultimately be referred to legal. A sample of clients will be selected at random for detailed checks. The reviewing officer will sign off the evidence once spot checks are completed, and upload to FWI.</p> <p>We will develop a procedure for this process, and will write to the care providers to inform them of our new requirements.</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
	Senior Finance Officer – 31/01/13
The Client Finance Team should chase up those Home Care Agencies who have failed to submit statements and other information regarding the use of client personal allowances paid to them.	<p>Agreed.</p> <p>The recommendation will be linked to Recommendation 7 and incorporated into that policy.</p> <p>Senior Finance Officer – 31/01/13</p>
<p>The monthly pre-payment card reconciliations (between the on-line record, spreadsheet and ResFunds) are documented and the reports from all of the relevant systems should be retained.</p> <p>The reconciliation should be signed and dated by the preparer, and this should then be subject to a review by an independent person who should also sign and date it.</p>	<p>Agreed.</p> <p>Records of all prepayment card transactions are kept. All prepayment card loads are expensed to MA01 (appointee and deputy) and posted to Resfunds. All MA01 transactions are reconciled with Resfunds and the reports are signed off by a manager each month as part of the internal payment process.</p> <p>We will implement an additional level of reconciliation as recommended by audit which will be signed off by the SFO.</p> <p>Senior Finance Officer – 31/12/12</p>
The weekly reconciliation between the balances on Abacus, ResFunds and the Appointeeship bank account should be documented and the reports from the relevant systems retained. The reconciliation should be signed and dated by the preparer, and this should then be subject to a review by an independent person who should also sign and date it.	<p>Agreed.</p> <p>We intend to purchase a new client money management system which will simplify this process and allow a greater transparency for audit purposes.</p> <p>Senior Finance Officer - -31/03/13</p>

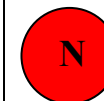
Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>The reconciliation between the appointee bank account and the Council's main bank account and subsequent transfers to the Council's main bank account should be undertaken on a timely basis and at least monthly.</p>	<p>Agreed.</p> <p>Response from the Business Partner Team: Monthly reports will be provided to the Client Finances team on a monthly basis.</p> <p>The Senior Finance Officer will setup a monthly calendar reminder to ensure the reconciliation process is timetabled each month. The Team Manager can check on the completion of reconciliation at regular supervisions.</p> <p>Business Partner Team / Senior Finance Officer – 31/10/12</p>
<p>The annual returns for deputyship clients requested by the Office of Public Guardian should be submitted within the specified timescales.</p>	<p>Agreed.</p> <p>Presently the OPG send a request whenever they need a report. Upon receipt of these requests, the SFO adds a calendar reminder to submit the report prior to the specified due date.</p> <p>We suggest this information is reported to the CFT Team Manager during supervision and appraisal sessions and included on monthly statistics reports. Progress towards meeting this recommendation should be monitored over the next three months.</p> <p>Senior Finance Officer / Team Manager – 31/12/12</p>
<p>Management should ensure that where a client does not have sufficient income to cover his or her expenses that other client funds are not used to cover such expenditure.</p> <p>Where an application is made to become an appointee or deputy for a client with significant debts, that adequate steps should be taken to draw up a course of action to clear those</p>	<p>Agreed.</p> <p>We are aware of a number of historical overdrawn balances in Resfunds and one overdrawn account in quicken. These issues have now been addressed by the AD Finance and there is agreement in principal to write off historical overdrawn accounts</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
debts.	<p>in Resfunds. There is a plan in place to repay the overdrawn Quicken account.</p> <p>A process is being developed to address the debts of new clients. We will identify unrecoverable debt at an early stage once all assets are known.</p> <p>Senior Finance Officer – 30/12/12</p>
The reconciliation of client accounts on Quicken against the bank account should be undertaken on a monthly basis.	<p>Agreed.</p> <p>The Quicken reconciliation process is completed at the same time as the transaction posting referred to in recommendation (4). Please refer to the management response in recommendation (4).</p> <p>Senior Finance Officer - Implemented</p>

LIMITED/NIL ASSURANCE REPORTS – School

Tora Temimah

16 priority 1 and seven priority 2 were raised as a result of this audit. All recommendations were agreed by the School



LIMITED / NIL ASSURANCE REPORTS – BHP

As above, Reports for BHP are reported on separately to the BHP Audit & Finance Sub-Committee and hence the detail is not included below.

V5

Final Report Reported separately to the BHP Audit & Finance Sub-Committee.



Tenant Management Organisations – Watling Gardens

Final Report To be reported separately to the BHP Audit & Finance Sub-Committee.



NON ASSURANCE WORK

This section summarises other work undertaken during the year for which an assurance opinion was not applicable.

We have previously reported on the following works:

- Olympic Games Preparedness; and
- Manor School.

Staff Expenses Testing

Introduction

This work was carried out in two stages as follows:

Stage 1

- Identifying payments relating to expense claims from an Oracle report showing all payments processed through direct expenditure process; and
- Selecting a sample of staff members from the above and identifying the approver for each claim in the sample.

Stage 2

For the sample selected above, we sought to assess the following:

- The extent of checks carried out by the approving managers;
- Retention of receipts;
- Accounting for VAT;
- Coding of expenses;
- Whether there are any duplicate claims; and
- Whether the claims are made within six months of the date on the receipt.

In addition to the above, we sought to identify staff expense claims that are not paid through BACS so that appropriate arrangement can be put in place by management to ensure that all future staff expense claims are paid through BACS.

It should be noted that the expense claims process is within the scope of the Athena project and the new process is to be launched in August 2013. This work was intended to assist in identifying weaknesses or concerns in respect of the current process and to be fed into the development and implementation of the new expense claim process. Given the imminent changes, we did not providing an assurance opinion as part of this work and the recommendations have not been given a priority rating as all of these should be implemented as soon as possible.

Overall summary of findings and areas for management's consideration

A number of weaknesses and exceptions were identified as a result of this work. The key exceptions from our sample of 160 claims related to the claims where receipts could not be provided at all (18%), receipts could not be provided for some items in the claim (4%), and duplicate payments (2%).

Whilst the above exceptions may be due to error as opposed to fraud, management should be reminded that the following factors generally contribute to an increased exposure to the risk of fraud and it is key that the controls surrounding staff expenses are robust:

- Incentives and Pressures - The financial climate increases the pressure upon staff who may have changes in their financial circumstances;
- Rationalisation - With organisations making cuts in workforce and benefits, there is an increased risk that staff motivation to defraud their employer may increase; and
- Opportunity - As new systems and staffing structures are introduced and as savings are made, control systems may be weakened, thus increasing the opportunity to commit fraud. Even if this weakening in control is not the case, the perception may be that gaps in control are likely to have emerged.

We have raised eight recommendations and these were agreed by management as follows:

Recommendation	Action/ Deadline/ Responsibility
1. A method of distinguishing staff expense claims from the rest of direct expenditure payments on Oracle should be established.	Agreed. Expenses will be used to clearly identify staff expense (excluding mileage). August 2013 Head of Finance Service Centre (FSC)
2. Guidance should be provided to Service Areas in respect of retention of receipts for staff expenses. The guidance should include, but not limited to, the following: <ul style="list-style-type: none"> • The need to retain receipts centrally within each team/unit and who is responsible for retention; and • Where scanned image of receipts are retained, original receipts should be clearly marked as approved. 	Agreed. Expenses has the facility to attach images. Interim period SA to be advised that receipts are marked as 'Approved' to eliminate/duplicate requests August 2013 Head of FSC Accounts Payable (AP) Team Leader
3. Approvers should be reminded that they should only approve a direct expenditure payment if they have seen the supporting evidence	Agreed.

<p>and confirmed the validity of the claim. In addition, approvers should only approve claims if they are made within six months of the date of receipts.</p> <p>Consideration should be given to whether a prompt can be built in for the approving manager to confirm the above against each claim.</p>	<p>FSC to review DEF page on Intranet, update where appropriate.</p> <p>Head of Financial Management (FM) to update the Strategic Finance Group</p> <p>March 2013</p> <p>AP Team Leader</p> <p>Head of FM</p>
<p>4. Staff should be reminded of the need to account for VAT where the receipt includes VAT amounts and also the need to obtain and retain the VAT receipt. This should be supported with an explanation of what information a valid VAT receipt would contain.</p>	<p>Agreed.</p> <p>FSC to review DEF page on Intranet, update where appropriate.</p> <p>March 2013</p> <p>AP Team Leader</p>
<p>5. As part of the subjective code review under project Athena, management should consider how best to capture staff expenses whilst ensuring that the description of staff expenses are also retained and fed through to reporting. Once the coding structure is finalised, staff should be briefed on this and reminded to code items accurately.</p>	<p>Agreed.</p> <p>To be reviewed under Project Athena</p> <p>August 2013</p> <p>Systems Accountant</p> <p>FSC/CF to review DEF page on Intranet ie. Coding structure.</p> <p>March 2013</p> <p>Head of FM</p>
<p>6. Staff including approving managers should be reminded that mileage claims should be paid through payroll. Fuel for the Council's vehicles should generally be paid for using the fuel card. In an event that the fuel card is not available and staff pays for the fuel, this should be clearly indicated in the claim including the registration number of the vehicle.</p>	<p>Agreed.</p> <p>FSC to deliver communication on staff expense claims.</p> <p>March 2013</p> <p>AP Team Leader</p>
<p>7. Staff members set up as a supplier on Oracle should be reviewed and the payment method should be changed to BACS.</p>	<p>Agreed.</p> <p>Instructions will be sent out to update Intranet.</p> <p>March 2013</p>

	AP Team Leader
8. In light of the exceptions identified as part of this work, management should consider whether additional controls such as periodic spot checks should be introduced to confirm the compliance with the receipt retention requirement and also to confirm accuracy of VAT recording and expenditure coding.	Agreed. As part of Project Athena, GRC will capture these exceptions for compliance checking. August 2013

Kilburn Square TMO

Final Report

To be reported separately to the BHP Audit & Finance Sub-Committee.

Follow-Up of Previously Raised Recommendations

The table below provides a summary of the findings from the follow-up work completed since the last meeting, excluding any BHP recommendations.

Our approach is explained within the Executive Summary. Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI); or in some cases no longer applicable (N/A), for example if there has been a change in the systems used.

For any recommendations found to have only been partly implemented or not implemented at all, further actions have been raised with management. As such, we have included all recommendations followed-up to date, including Draft Follow-Up Reports, as well as those that have been finalised. Where the reports have been finalised, the further actions have been agreed with management, including revised deadlines and responsible officers. For those at Draft stage, we are awaiting responses from management. All agreed further actions will be added to our rolling follow-up programme as explained in the Executive Summary to this report.

The table includes a column to highlight any priority 1 recommendations which were found not to have been fully implemented. Please note that we have not replicated the full recommendation, only the general issue to which they relate.





Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Accounts Payable	-	1	1*	-	2	1	-	-	-	-	3	2		Review of approved requestors to set up suppliers.
General Ledger	-	2	-	1	-	1	-	-	-	1	2	1		
Pension Administration	1	-	-	1	-	1	-	-	-	2	-	1	1	
Accounts Receivable	1	1	2	-	3	1	-	-	-	1	4	3		Linking of e forms to work flow approval process; checking of invoices by service areas.
Cash & Bank	1	-	-	6	-	1	-	-	-	7	-	1		
Total	3	4	3	8	5	5				11	9	8	1	

*Management indicated that this has yet to be reviewed due to the various changes taking place across the Council. The review will be done once the new staffing structure and the process transformation are finalised and there is clear understanding of who require this access going forward.

Appendix A – Definitions

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance grading provided are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.




	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.



Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the Audit Committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Appendix B – Audit Team and Contact Details

London Borough of Brent		Contact Details	
Simon Lane	– Head of Audit & Investigations		simon.lane@brent.gov.uk
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	<p style="text-align: center;">Audit Committee</p> <p style="text-align: center;">9 January 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance and Corporate Services</p>
<p>For Information</p>	<p style="text-align: right;">Wards Affected: ALL</p>
<p>Report Title: Corporate Risk Register</p>	

1. Summary

- 1.1. The purpose of this report is to present an updated version of the Council's Corporate Risk Register to the Audit Committee.

2. Recommendations

- 2.1. Audit Committee to review and note the contents of the Council's updated Corporate Risk Register.

3. Detail

- 3.1. Following presentation of the Corporate Risk Register at the meeting of the Audit Committee on 27th June 2012, members agreed to receive an update of the corporate register at each meeting.
- 3.2. The updated Corporate Risk Register is attached as Appendix 1. The operational risks are shown by department.

4. Legal Implications

- 4.1. The Accounts and Audit Regulations (England) 2011 section 4(1) require the council to *"ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."*

5. Financial Implications

5.1. None.

6. Diversity Implications

6.1. None.

7. Background Papers

1. Accounts & Audit Regulations 2011

8. Contact Officer Details

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Mick Bowden
Deputy Director of Finance and Corporate Services

CORPORATE STRATEGIC RISKS

ID	CAT.	RISK IDENTIFICATION (Describe risk and underlying cause)	IMPACT (Consequences of risk maturing)	Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
					Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
S1	Political	Failure to recognise and plan for coalition government's future vision for Local Government - Greater role in partnerships and strategic commissioning; diminishing role in direct service provision (e.g. Education, joint health and social care services; removal of responsibility for housing benefit delivery.	Inadequate planning for reduced direct service provision role and increased commissioning role may lead to poor service outcomes for users, increased complaints, poor value for money. Large scale reductions in resources, forced shared services / amalgamation, creation of a small commissioning core, reduced local political accountability, potential for London / local government restructure. Opportunities for improved services and lower cost through effective partnerships and integration not exploited.	Chief Executive	6	4	24	Ensure members and senior officers have a good understanding of central government policy and possible intentions through briefings. Relevant officers and members maintain close links with DCLG, respond to consultation where necessary and seek to influence future policy through LGA and London Councils and any other lobbying route. Ensure opportunities for partnership and shared services are considered	Reports to PCG, CMT. One Council programme	6	3	18				
S2	Political / Reputational	1st April 2013. Start date for multiple service changes, new Civic Centre, new way of working and self-service, new legislation. i.e. benefit caps, local council tax rebate, retention of business rates	Potential for major IT / customer service failure	Chief Executive	6	5	30	Regular reporting either through CMT or PMO on status of projects and adequate risk management within projects and risk escalation if appropriate.	CMT reports PMO reports	6	4	24				
S3	Economic/ Political/ Socio Cultural	Income loss due to various factors including budget reductions, change in legislation, economic recession, lack of external investment	Failure to meet statutory service demand / council objectives	Deputy Director of Finance and Corporate Services	6	6	36	Economic monitoring and market contact		6	5	30		Ongoing economic monitoring and market contact	On-going	Andy Donald - Director of Regeneration & Major Projects
S4	Economic / Socio Cultural	Economic recession / demographic change and welfare reform agenda including localised council tax benefit resulting in increase in need for council services.	Increased demand for council services / accommodation / crime / anti-social behaviour	Phil Newby Director of Strategy, Partnership and Improvement	6	6	36	Lobbying of Central Government. Partnership working with NHS. Preparing customers for impact of welfare reform through communications and proactive engagement. i.e. "Benefit are being cut" leaflet, briefing at area consultative forums and voluntary groups. Ongoing work to model impacts on housing need. Briefing reports to Executive and other political groupings on HB reforms. Contingency plans being drafted for impact on customer demand. Report to CMT 27th September 2012 includes an action plan and assessment of impacts. A welfare reform project team has been set up to implement the plan.		6	5	30				
S5	Legal / Political	The Council fails to comply with legal/statutory obligations including consultation and equality duty in implementing policy changes or failure to comply with	Increased dissatisfaction with council, increase in number of legal challenges and Judicial Reviews resulting in cost of defence and delay	Toni McConville - Director of Customer & Community Engagement Fiona Ledden Borough Solicitor	6	4	24	Area Consultative Forums; Brent Citizens Panel; User Consultative Forums; Equalities issues reported to CMT on a quarterly basis. Regular monitoring by CMT. Equalities Statement	Consultation Board.	6	3	18		Contentious issues flagged up through surgery system. New guidance on Equalities to be issued.	Dec-12	Christine Collins - Community Engagement Manager
S6	Technological	Inability to deliver technological changes to meet customer requirements and demand	Damage to reputation. Service delivery failure. Impact on savings already identified in FCS project	Toni McConville - Director of Customer & Community Engagement	6	5	30	Regular monitoring by PMO and Brent Customer Services Board.	PMO and Brent Customer Services Board.	5	3	15		CMS (content management system) specification and prototype developed and reviewed by Customer Services Board. Governance arrangements agreed by Customer Services Board. Web enhancement project to be implemented to address limitations of current CMS.	Dec-12	Jenny Dunne - Project Manager, Future Customer Services Project

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S7	Economic	Reduced ability to / reduction in scope to recruit and retain sufficient numbers of skilled staff in key areas/services. Fewer people having to work harder and do more.	Service delivery will be impacted. Increase in stress related sickness/absences. Costs and human implications.	Deputy Director of Finance and Corporate Services	6	4	24	Robust Performance Management framework for managers & staff; Effective HR policies; Management Development Programme; Development & Learning opportunities available for managers and staff; Investors in People; Succession Planning; Staff benefits (flexible working etc.). Equalities Act	Performance Management Data; LLD Attendance; Appraisals.	6	3	18		Development of better management skills amongst managers. Better monitoring of performance.	On-going	Director, People & Development.
S8	Legal / Reputational	Significant failure to comply with Health & Safety requirements.	Accidents in the work Place. Death/injury to staff and public. Increase in sickness absence. Potential for corporate and personal criminal liability.	Chief Executive; Sue Harper - Director of Environment & Neighbourhood	6	6	36	Corporate Health & Safety Policy; Health & Safety Advisory Team; Accident & incident reporting and investigations; Risk assessments; advice ; promoting positive health & safety culture;	Health & Safety Inspections; Training for staff. Consumer & Business Protection.	6	3	18		N/A	N/A	N/A

KEY OPERATIONAL RISKS

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RISK IDENTIFICATION		IMPACT		Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
ID	CAT.	(Describe risk and underlying cause)	(Consequences of risk maturing)		Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
Regeneration and Major Projects																
RMP1	Reputational	Civic Centre Project (over run in completion) and / or Move to Civic Centre (systems failure).	Risk to Council's reputation. Delays in realising expected savings. Disruption to some services where leases have been terminated. Business Continuity arrangements.	Aktar Choudhury - Assistant Director Major Projects & Civic Centre	6	5	30	Programme Governance/ Civic Centre Programme Board/ Master Programme of Works - progress is monitored on an on-going basis. New governance arrangements have now been put in place with a new Programme Manager appointed to manage the move to the Centre. A task Register has also been set up with named officers assigned with specific tasks.	Regular Progress Reports provided to Project Board.	6	4	24	↔	Move to Civic Project Governance embedded. Detailed communication plan in place for all staff.	December 2012 / April 2013	Aktar Choudhury / Caroline Rainhan
RMP2	Economic / Socio Cultural	Lack of external investment in regeneration of the borough	Reduced income receipts from business rates; reduction in housing supply within the borough. Increase in levels of poverty, unemployment and increased levels of deprivation within the borough.	Andy Donald - Director of Regeneration & Major Projects	6	6	36	De-risking by assisting with planning permissions etc. on behalf of developers; Maintaining dialogue with investors / developers. Reviewing other sources of capital finance.	Regular economic monitoring. Regular market contact.	5	5	25	↓	Ongoing economic monitoring and market contact	On-going	Aktar Choudhury/Dave Carroll
RMP3	Economic/ Political/ Socio Cultural	Welfare Reform. Increase in homelessness caused by high levels of service demand caused by housing and welfare reforms as well as the current economic climate.	Large-scale changes have been made or are planned to a number of welfare benefits, in particular housing benefit. LB Brent is the worst affected borough in the country impacted by these changes. Council unable to manage budget within agreed limits. Major impact on children within homeless families	Perry Singh - Assistant Director of Housing	6	6	36	A cross Council project board has been established, together with a smaller delivery team to take forward a detailed action plan. Delivery of the revised Accommodation Strategy Detailed budget monitoring arrangements in place Continue to focus resources on prevention of homelessness wherever possible Reduction in the use of high cost temporary accommodation and introduction of new more cost effective contracts to provide temporary accommodation Monitoring of temporary accommodation placements Streamlined service will aim to manage demand and mitigate the effects of housing and welfare reform Tight monitoring of service demand / costs at Project board level.	Regular monitoring. Reporting through to DMT and CMT.	5	6	30	New Entry	Delivery of action plan.	Apr-13	Perry Singh
RMP4	Reputational; Economic / Socio Cultural	Inability to deliver enough school capacity through the Schools Capital Programme	Council in breach of its statutory duty. Increasing numbers of children having to be educated out of Borough	Richard Barrett Assistant Director Property and Asset Management	5	6	30	Work with Children & Families Dept. to identify alternative education solutions Scope to identify future funding/grant funding options	Schools Expansion Policy agreed by Executive	4	5	20	↔		On going	Richard Barrett/Rajesh Sinha
Children and Families																


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		(Describe risk and underlying cause)	(Consequences of risk maturing)		Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
CF1	Legal/ Political /Socio Cultural /Reputational	Continuing shortage of primary school places and shortage of Secondary School Places	Council unable to discharge statutory duty to provide education. Reputation damage, legal challenge, increased health and safety risks	Sara Williams - Assistant Director Early Help & Education	6	6	36	Lobbying Central Govt for additional funding; funding of £25m secured from central govt. to provide additional school places; Temporary expansions and Projects established to address shortfall; Regular reports to CMT& Executive to agree prioritisation of use of capital funding; Strategy Board meets on a regular basis ; Standing Agenda Item in Overview & Scrutiny Committee Meetings. <i>Programme of primary expansion being implemented following Executive decision in August 2012 and proposals for secondary expansion to be considered by executive in December 2012.</i>	Regular monitoring by Overview & Scrutiny Committee; CMT & Executive.	6	4	24	↔	Continued lobbying and work with London Councils and Schools.	On-going	Sara Williams - Assistant Director Early Help & Education
CF2	Reputational / Political	Vulnerable children not adequately safeguarded.	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Graham Genoni - Assistant Director, Social Care Division, Children & Families.	3	5	15	Safeguarding of Children Teams deal with child protection and safeguarding issues; Brent Local Safeguarding Children's Board; Safer Recruitment & Training; Whistleblowing; publicity, raising of awareness at Schools & community in general; Children & Young Persons Plans; Child Protection Arrangements; Strong partnership working with relevant agencies; High level monitoring meetings with Chief Executive; Corporate Parent Group; Auditing arrangements; Range of monitoring arrangements to track progress; Children & Families Overview & Scrutiny; Performance Information (quarterly scorecards); Timely reviews of Looked After Children <i>There are robust management arrangements in place and safeguarding work is audited on a regular basis. Managers are receiving specific training on supervisory skills. New independent chair of LSCB and reviewed governance arrangements.</i>	Recent Ofsted Inspection deemed that children were safe; Internal Service User Surveys; Internal Audit.	6	2	12	↔	Continuous Monitoring & Development; Safeguarding & Looked After Children Inspection Action Plan; Continued collaboration with relevant agencies.	On-going	Graham Genoni - AD Social Care Division
CF3	Socio Cultural/Reputational/Financial	<i>Current ecomonic climate and further reduction in funding levels leading to greater demand for services and potential inability to meet statutory responsibilities. Increase in family breakdown due to economic downturn Rising child population and increasing levels of deprivation is likely to lead to increased demand for Chidren's Social Care services.</i>	<i>Increase in number of looked after children or greater demand for services for vulnerable and young persons. Certain key statutory responsibilities cannot be met.</i>	Graham Genoni - Assistant Director, Social Care Division, Children & Families.	6	6	36	<i>Improved budgetary controls; robust budget monitoring; improved commissioning arrangement. Services will be re-prioritised to meet the needs of the most vulnerable. Improved commissioning arrangements including cross borough work with WLA. Review of services delivery models, working with WLA to reduce SEN & Social Care placement costs and developing an effective Early Help offer for vulnerable families.</i>	<i>Management information reports track activity and identify trends, to which management are able to respond</i>	4	6	24	↔	<i>Early help projects will begin to deliver efficiencies in 2013/14.</i>	ongoing	Graham Genoni - Assistant Director, Social Care Division, Children & Families.

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ASS1	Legal/ Political /Socio Cultural / Reputational	Vulnerable persons (older persons; persons with physical & learning disabilities; mental health and other vulnerable adults) are not adequately safeguarded.	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Alison Elliot - Director Adult Social Care	6	3	18	Safeguarding of Adults Teams deal with safeguarding issues. Safer Recruitment; training; Multi - Agency Policies and Procedures for Adults; ASC Transformation Programme; Reablement. Appointeeships/Deputyship arrangements in place after client needs have been assessed. <i>Good links with with Children's & Families and Legal to ensure robust adherence to safeguarding children's policies and procedures.</i>	Care Quality Commission Inspections; Carers Survey; Internal Audit; Office of Protection.	6	2	12	↓	None	N/a	N/a
ASS4	Financial / Economic	Budget / Demand - by 2020 high level figures estimated that demand will increase budgetary requirements 26% based on projected movements in demographics and populations with people living longer	Changes in ways we deliver services and demand management strategies need to be put into place to protect the council's financial position.	Alison Elliot - Director Adult Social Care / Liz Jones, AD, Adult Social Care	6	5	30	Demand levels are continuously monitored and regular modelling and forecasting will help to keep a close watch on the situation.	Financial pressures are regularly reported and monitored through Strategic Finance Group and High Level Monitoring panel.	6	4	24	↔	None specific as routine monitoring and reporting arrangements are in place Ongoing work is required to look at how to deliver the service differently to be able for the department to be able to deal with the projected increase in demand.	31/03/2013	DMT
ASS5	Financial / Compliance / Service Delivery	Contract Management / Monitoring	<i>The high value of existing contracts and the imminent transfer of Public Health contracts means that we need to ensure we are getting the best out of the arrangements to maximise value for money and mitigate against the projected rise in demand levels. The local provider market also needs to be developed further to meet the needs of legislative changes.</i>	Alison Elliot - Director Adult Social Services / Steven Forbes, Head of Commissioning, Adult Social Services	6	4	24	<i>We now have a dedicated commissioning function in place to strategically manage the provider market and we are reviewing and renegotiating existing service models and contractual arrangements.</i>	<i>New procurement protocols are in place and improvements are being made through the One Council programme.</i>	6	3	18	↔	<i>Although routine monitoring and reporting arrangements are in place, additional resource is required in this team to be able us to continue to improve.</i>	31/03/2013	Steven Forbes, Head of Commissioning, Adult Social Services
ASS6	Financial / Economic	Education Funding Agency – Department for Education are introducing changes to the way that people with Learning Disabilities receive support funding. They have capped the rate and are introducing top up rates for those with higher levels of need.	Increased costs to supporting young people with disabilities in education	Alison Elliot - Director Adult Social Care / Liz Jones, AD, Adult Social Care	6	6	36	<i>Current cohort of those affected and projections for the next two years have been identified and DfE returns will be submitted to ensure that correct levels of funding are received going forward.</i>	<i>DfE returns have been submitted to ensure that correct levels of funding are received going forward.</i>	6	5	30	↔	<i>To be deleted per Liz Jones - pressure is on Children's rather than Adults budget</i>		
Environment and Neighbourhood Services																
ENS1	Environmental / Economic	Effects of Climate Change not adequately planned for. Environmental Targets not met. Failure to understand and plan to mitigate the impact of and adapt to climate change. Failure to cope with severe weather events.	Negative impact on health & wellbeing of residents. Increase in energy costs and fees paid to the Environment Agency on Carbon Reduction Commitment Regulations and reputational risks for being at the bottom of the league table. Increase expenditure to make further adaptations and other levies.	Sue Harper - Director of Environment & Neighbourhood	6	4	24	Climate Change Strategy & Action Plan; Travel Plans; Recycling Schemes; Civic Centre; Climate Change Pledge; Waste Strategy, Carbon Management Programme and the Council's Green Charter.	Internal Audit - CRC Readiness Report. Audit by Environment Agency. Progress on Green Charter is reported to members	6	3	18	↔	N/A	Ongoing	
ENS2	Legal / Reputational / Environmental	Major or large scale incident (accident; natural hazard; riot) business interruption affecting Council's resources and its ability to deliver critical services. Risk to safety of staff / Loss of staff.	Service delivery disruption and impact on the Council's ability to deliver critical services.	Chief Executive; Sue Harper - Director of Environment & Neighbourhood	6	5	30	Community Resilience; Civil Contingencies Register; Emergency Planning	Emergency Planning & Business Continuity	6	3	18	↔	Regular review and assessment of robustness of plans	Ongoing	Martyn Horne - Head of BCP, Env & Neighbourhood

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ENS3	Service Delivery / Financial / reputational	Financial/ bankruptcy of major service provider/contractor i.e. waste, street cleansing, trees, parking. Performance targets not met.	Catastrophic failure in service delivery/disruption. Council unable to fulfil its statutory duties. Reputational damage and financial implications.	Sue Harper - Director of Environment & Neighbourhood	6	3	18	Robust Tendering & Contracting procedures with effective contract clauses when negotiating Contracts. The requirement for financial guarantee / bond / parent company guarantee. Effective Contract Management procedures & arrangements ; regular meetings with contractor; performance monitoring; action plans to address underperformance	Auditor's Reports; Internal Audit Reports; Performance Reports; Performance information.	6	2	12	↔	N/A	On-going	Sue Harper - Director of Environment & Neighbourhood
ENS5	Financial/Reputational	Failure to meet Administration's recycling and composting target of 60% by 2014/15. This would mean higher disposal costs and savings target not being met.	Higher disposal costs currently at £93 per tonnes and unable to deliver saving agreed. Reputational risk of being at the bottom of the league table.	Sue Harper - Director of Environment & Neighbourhood	6	5	30	Communication plan to engage with residents to ensure effective use of the service on an on-going basis. Recycling and environment officers continue to monitor performance. The One Council 'Managing the Public Realm' project has work streams to minimise waste and improve recycling.	Robust and timely monitoring of performance by DMT and by Corporate Financial Steering Group. The OC project identify and report any concerns on waste through monthly Portfolio reporting to the PMO	5	3	15	↔	N/A	On-going	Sue Harper - Director of Environment & Neighbourhood
ENS6	Financial/service delivery	Income targets for Parking, Licensing and Pest Control not met.	E&NS will have to reduce services to fund these income shortfalls and may be unable to balance its budget	Sue Harper - Director of Environment & Neighbourhood	5	4	20	Timely and robust budgets monitoring. Risks identified under the One Council 'Parking Transformation' project will be managed through the departmental monthly portfolio reporting and the PMO	High level financial monitoring by DMT and Financial Steering Group. The OC project identified and report any concerns on Parking through monthly Portfolio reporting to the PMO.	5	3	15	↔	N/A	On-going	Sue Harper - Director of Environment & Neighbourhood
ENS9	Financial	Partners pulling out of the joint procurement of parking services and the public realm contracts will result in delays in the procurement of the contracts and incur financial risk on challenges	Changes to the joint procurement will reduce savings and incur additional costs on realigning specifications. The shortfall will have to be funded corporately.	Sue Harper - Director of Environment & Neighbourhood	6	4	24	Director and AD to meet with senior officers from partners boroughs to agree specifications for procurement and ensure that Memorandum of Understanding is signed	All boroughs signed Memorandum of Understanding	6	3	18	New Entry	N/A	Jan-13	Michael Read - AD Environment and Protection Jenny Isaac - AD Neighbourhood Services
Corporate Services																
CS1	Economic / Reputational	Increased acts of significant fraud or corruption due to economic down turn.	Financial Loss and damage to Council's reputation.	Mick Bowden- Deputy Director of Finance	6	4	24	Anti-Fraud Framework; Whistleblowing Policy; Staff Code of Conduct; Audit & Investigations Unit; Conflicts of Interests Policy; Gifts and Hospitality Policy;	Audit & Investigations Reports / Investigations. NFI, Audit Commission	6	3	18	↔	Anti-Fraud Culture promotion; fraud training across the Council and to external organisations.	Ongoing	Simon Lane - Head of Audit & Investigations
CS2	Technological/ Reputational	ICT systems failure/ severe or prolonged failure of ICT capability across the Council / breach of IT security either external or significant data loss by staff. Denial of Access. Proximity of new Civic Centre to Wembley Stadium - would take a major threat at the Stadium to have a significant impact on the Council's ICT capabilities.	Service delivery disruption. Financial penalties. Serious damage to Council's reputation.	Stephan Conaway - Director of Finance.	6	5	30	ICT Strategy; Disaster Recovery Plans place; ICT projects to improve technical infrastructure (info store; OnePrint etc.); Information Governance ; S Access to Information Policy. IT Steering Group.	Test Results from Disaster Recovery Plans. IT Audits. Incident management process	6	4	24	↔	Security Policies & Protocols in need of review and revision.;	Ongoing	Stephan Conaway - AD, Information Technology.

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CS7	Financial	Inability to plan Council finances beyond 1/4/13 due to uncertainties in funding streams	Inability to take planned approach to managing Council's services in times of reduced funding and significant legislative changes	Mick Bowden - Deputy Director of Finance, F & CS	6	5	30	Existing medium term financial strategy has element of flexibility built in and increases reserves to manage risk	Existing MTFS approved by Council	5	4	20	↔	Need to understand implications of various changes (NNDR, CTB etc) on Brent. Also need to revisit risk cover as part of refresh of MTFS	28/02/2012	Mick Bowden - Deputy Director of Finance, F & CS
CS10	Financial, Reputational	Pension Fund valuation position does not improve	Increasing drain on Council resources	Mick Bowden - Deputy Director of Finance, F & CS	5	5	25	Strategic asset allocation review undertaken and recruitment of new Head of Service underway	Monitoring of fund manager performance	5	4	20	↔	New Head of Service in place and is reviewing the arrangements regarding the fund's investments and operations.	31/03/2013	Mick Bowden - Deputy Director of Finance, F & CS
Customer and Community Engagement																
CCET	Reputational / Service Delivery	Failure to achieve delivery of Customer Services Project. Insufficient operational capacity to deliver improvements to the Customer Services experience at the new Civic Centre.	Residents unable to communicate with council / Failure of project objectives (i.e. consolidation of Customer Services at Civic Centre)	Margaret Read - AD Customer Services	6	5	30	Regular monitoring of Project by Board. Strong project management in place. Robust project planning. Improvement plans and agreed protocols for Web and Digital Post Room teams.	1 - PMO Board and Brent Customer Services Board	6	4	24	↔	- Continual monitoring required to ensure delivery of project meets deadlines. Consultant to be appointed to manage project for 1 day a week and dedicated Cdovic Centre Resource to be appointed.	Dec-12	Margaret Read - AD Customer Services
CCES	Financial / Economic	Failure of trading units to achieve income targets. RNS failure to achieve external income targets due to change in government policy.	Pressure on CCE budget & CCE budget overspend resulting in savings having to be found from elsewhere within the service.	Saskia Woolloff - Business Manager	6	5	30	Monthly monitoring with cost centre managers and Finance business partner. Close liaison with relevant government departments to ensure early notice of policy changes.		6	3	18	↔	1 - Business Manager to maintain monitoring and liaise closely with Finance Business Partner to ensure budget breaks even	Mar-13	Saskia Woolloff - Business Manager
CCET	Financial	Failure of the CCE Civic Centre Move Action Plan causes business disruption during relocation to the Civic Centre premises	Loss of income and marketing opportunities / Disruption to RNS customer contact through close of reception at Town Hall	Saskia Woolloff - Business Manager	6	5	30	A - Monitoring the Action Plan B - communication updates to DMT	1 - Monthly reviews part of DMT workplan	6	3	18	↔	On-going monitoring of work plan	31-Mar-13	CCE DMT & Saskia Woolloff - Business Manager
Strategy Partnership and Improvement																
SPI7	Financial / Economic	Failure to deliver of £43m savings target	Council unable to deliver services effectively.	Peter Stachniewski - Head of One Council Programme	6	5	30	1. Robust business cases and Project Initiation Documents. 2. Regular progress reports through Project Status Reports 3. Monitoring of overall financial costs and savings at fortnightly meetings of the One Council Programme Board	Reports to Project Boards, One Council Programme Board, CMT, Policy Co-ordination Group, and Overview and Scrutiny	4	3	12	↓			Peter Stachniewski - Head of One Council Programme

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NEW RISK ADDED	SPI9	Financial/service delivery	Shift from efficiency savings to delivering on transformational projects (Troubled Families)	Failure to deliver transformational change will mean that spending reductions will lead to decimation of council services and a bad deal for residents	Peter Stachniewski - Head of One Council Programme	6	6	36	Engagement of members with the One Council Programme and projects within it through: - leadership and championing of the Programme by the Leader and Deputy Leader; - refresh of the corporate strategy and development of a council target operating model which provides context for transformation; - effective engagement of members with individual transformation programmes.	Reports to Project Boards, One Council Programme Board CMT, Policy Co-ordination Group, and Overview and Scrutiny	5	4	20	↓	- Development of revised corporate strategy and target operating model - On-going work to engage leading members with the One Council Programme - Increased sense of ownership among members and officers of transformational change programmes	On-going	Peter Stachniewski - Head of One Council Programme

	<p style="text-align: center;">Audit Committee 9 January 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance and Corporate Services</p>
<p>For information</p>	<p style="text-align: right;">Wards Affected: ALL</p>
<p>Internal Audit Contract - 2013 to 2015</p>	

1. Summary

- 1.1. This report advises the Audit Committee 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. The anticipated cost of this contract over two years, including inflationary uplift is £590,000.

2. Recommendations

- 2.1. The committee note the report.

3. Detail

Background

- 3.1. In April 2011 the Council entered into a contract with the London Borough of Croydon for the provision of internal audit services. The contract was approved by the Executive at its meeting on 15th November 2010¹ and ran from 1st April 2011 to 31st March 2013. The gross cost of the contract over the two year period is estimated to be £586,000. The council recovers some £60,000 per annum from Brent Housing Partnership relating to planned audit work.
- 3.2. The London Borough of Croydon entered into a framework agreement ("the Croydon Framework") with Deloitte and Touche Public Sector Internal Audit Ltd ("Deloitte") and are able to call off from the Croydon Framework a variable number of days per annum, in order to service the contract with Brent. The Croydon Framework commenced in April 2008 with an initial term to expire on 31 March 2015. There was however an option to extend the term of the Croydon Framework and it now runs until March 2018. Croydon currently

provide audit services to twenty local authorities, including fourteen in London, via the Croydon Framework. They currently call off some 8,500 audit days from a maximum of 15,000 available days. The contract price is based upon daily rates for different types of audit work. The prices for 2013/14 will not be set until February 2013 although are unlikely to vary significantly from the current rates.

- 3.3. The rationale for entering into this contract in 2011 was documented in an earlier report to the Executive¹. In summary, the options at the time were to join the Croydon Framework, go out to tender as an individual authority or attempt to recruit an in-house team. The alternate options were seen to be either not cost effective or carry too much risk.
- 3.4. At the time of entering the contract under the Croydon Framework, there was an option to contract for a period of four years. There was no financial advantage in doing so and the Executive agreed to a two year contract on the basis that it would provide an opportunity to review the situation over a shorter time frame. There have been no significant changes in the audit market in the intervening period and the original rationale for using the Croydon Framework remains sound.
- 3.5. The contract has primarily been delivered using staff from Deloitte who had previously been contracted directly by the council on a four year contract between 2007 and 2011. This has provided a degree of continuity and has enabled managers within Deloitte to become familiar with the systems and structures within the council. Over the two year period between 2011 and 2013, Deloitte have delivered some 1,900 audit days. Whilst there have been some concerns over performance, these have been resolved during the relevant period. Auditees within the council and BHP appear satisfied with the service, as evidenced by satisfaction surveys issued after each audit. Schools are generally less happy with the internal audit service although their concerns tend to relate to the assurance assessment by audit rather than the competence or conduct of staff.
- 3.6. The audit plan for 2013/14, which will determine the number of days required to be procured and hence the cost, has not yet been developed and would normally be presented to the audit committee for approval in February 2013. Whilst the council's expenditure is shrinking and some services will reduce over the next two year period, the risks remain significant. Although the contract allows flexibility in the number of days being procured, for the purposes of this report it would be prudent to allow for a similar number of audit days. The maximum anticipated cost to the council is, therefore, likely to be £590,000 over the two year period.

4. Financial Implications

- 4.1 The Council's Contract Standing Orders state that contracts for supplies and services exceeding £500,000 or works contracts exceeding £1million shall be referred to the Executive for approval to invite tenders and in respect of other matters identified in Standing Order 89.

4.2 The estimated value of this services contract is £590,000.

4.1. It is anticipated that the cost of this contract will be funded from existing resources.

5. Staffing Implications

5.1. Internal audit services are currently provided by a combination of Deloitte staff and staff employed by the council. As it is intended to retain the in-house provision, there will be no staffing implications for Council staff.

6. Legal Implications

6.1. The estimated value of an outsourced contract over its lifetime is in excess of the current EU threshold for Services and the nature of these services means they fall within Part A of Schedule 3 of the Public Contracts Regulations 2006 ("the EU Regulations"). The tendering of the services is therefore governed in full by the EU Regulations. As the estimated value of the contract over its lifetime is in excess of £500k, the procurement and award of the contract is subject to the Council's own Standing Orders in respect of High Value Contracts and Financial Regulations.

6.2. It is proposed that the council procure the majority of its internal audit services through the Croydon Framework. Contract Standing Order 86 (d) indicates that no formal tendering procedures apply where contracts are called off under a framework agreement established by another contracting authority where the framework agreements is recommended by the relevant Chief Officer to include confirmation that there is budgetary provision for the call-off, provided that the Borough Solicitor has advised that participation is legally permissible save that any High Value contract may only be awarded on the approval of the Executive.

6.3. The Croydon Framework has been set up with Croydon acting as a Central Purchasing Body. Regulation 22(2) of the EU Regulations permits the Council as a contracting authority to enter into a contract for services with any other contracting authority provided such contracting authority is acting as a Central Purchasing Body and in carrying out the procurement exercise in question, has fully complied with the Public Contracts Regulations 2006. Croydon is acting as a Central Purchasing Body under the Croydon Framework and has informed the council that it has fully complied with the Public Contracts Regulations 2006 in concluding the Croydon Framework. It would thus appear that the council is able to use the Croydon Framework

6.4. To use the Croydon Framework requires the following contractual agreements:

- a) main contract between Croydon and Deloitte - This is the agreement that Croydon entered into with Deloitte following a full tender process for the provision of up to 15,000 audit days per annum (covering all routine audit work and fraud work). This contract commenced 1 April 2008 and runs for 10 years.

- b) sub contract between Brent and Croydon - Underlying this main contract would be a sub contract between the Brent and Croydon, whereby Croydon would undertake to provide Brent with a number of audit days as per its requirement / specification. Croydon would be responsible for delivering the services using their main contract with Deloitte. Croydon would charge Brent at the same contract day rates for any work they undertake in managing and monitoring this contract (the number of days would be agreed in advance each year and would be kept to the absolute minimum necessary).
- c) third party agreement between Brent and Deloitte - This agreement is necessary to ensure that the process remains as stream lined as possible at the operational level and allows existing working practices to continue as far as is required. This agreement would enable Deloitte to issue all audit reports direct to Brent rather than via Croydon

7. Diversity Implications

- 7.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

8. Background Information

- 1. Report to the Executive from the Director of Finance and Corporate Services: Internal Audit Provision 2011 onwards, 15 November 2010

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