



## Audit Committee

**Wednesday 8 January 2014 at 7.00 pm**

Board Room 2 - Brent Civic Centre, Engineers Way,  
Wembley HA9 0FJ

### Membership:

#### Members

Councillors:

Ewart (Chair)  
Al-Ebadi  
Cummins  
Van Kalwala

#### first alternates

Councillors:

S Choudhary  
Ashraf  
Harrison

#### second alternates

Councillors:

Arnold  
Lorber  
Hector

**For further information contact:** Joe Kwateng, Democratic Services Officer  
020 8937 1354, [joe.kwateng@brent.gov.uk](mailto: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
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<b>1</b>	<b>Declarations of personal and prejudicial interests</b>	
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Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.

<b>2</b>	<b>Minutes of the previous meeting</b>	1 - 6
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<b>3</b>	<b>Matters arising</b>	
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<b>4</b>	<b>Deputations</b>	
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<b>5</b>	<b>External Audit progress report</b>	7 - 18
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This report provides an update on the summary of work performed by KPMG, the external auditor, since the last meeting and a summary of work proposed over the next quarter.

**Ward affected:**                      **Contact Officer:** Conrad Hall, Chief Finance Officer

All Wards                              Tel: 020 8937 6529 [conrad.hall@brent.gov.uk](mailto:conrad.hall@brent.gov.uk)

<b>6</b>	<b>2013-14 Mid-year Treasury report</b>	19 - 26
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This report updates Members on recent treasury activity.

**Ward affected:**                      **Contact Officer:** Conrad Hall, Chief Finance Officer

All Wards                              Tel: 020 8937 6529 [conrad.hall@brent.gov.uk](mailto:conrad.hall@brent.gov.uk)

## 7 Treasury management strategy 2014-15

27 - 40

This report presents the draft Treasury Management Strategy for 2014/15 for consideration by the Committee. The final version of the Strategy, incorporating the views of the Committee, will be included in the budget report to be approved by the Council on 3 March 2014.

**Ward affected:**                      **Contact Officer:** Conrad Hall, Chief Finance Officer

All Wards                              Tel: 020 8937 6529 conrad.hall@brent.gov.uk

## 8 Internal Audit Progress Report 2013/14

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This report presents a summary of the work of Internal Audit and the Investigations Team from 1st April 2013 to 30th November 2013. The attached appendix to the report provides further details of audit reports issued.

**Ward affected:**                      **Contact Officer:** Conrad Hall, Chief Finance Officer

All Wards                              Tel: 020 8937 6529 conrad.hall@brent.gov.uk

## 9 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.

## 10 Date of next meeting

The next scheduled meeting of the Audit Committee is scheduled to be held on Wednesday, 19 March 2014.



- 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.

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## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Wednesday 25 September 2013 at 7.00 pm

PRESENT: Mr Ewart (Chair) and Councillors Al-Ebadi and Cummins

Apologies for absence were received from: Councillors Van Kalwala

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

None declared.

2. **Deputations**

None.

3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 26 June 2013 be approved as an accurate record of the meeting subject to amending the name of the new Director of KPMG to "Phil Johnstone".

4. **Matters arising**

Housing benefit fraud

Members noted that the report on housing benefit fraud comparison data was not available and would be submitted to the next meeting. Simon Lane, Head of Audit and Investigations clarified that the report would cover information on Department of Works and Pensions (DWP) database only.

Brent Housing Partnership (BHP)

It was noted that the report on the BHP audit programme would be submitted to the next meeting.

5. **Statement of Accounts 2012-13 and External Auditor report**

Members considered a report on the Statement of Accounts for 2012-2013, produced by the Council's external auditors, KPMG, following completion of the audit of accounts. The report identified changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work and also provided the overall value for money conclusion for the year.

In introducing the report, Phil Johnstone, Director of KPMG stated that the audit of the financial statements identified one material adjustment within Property, Plant and Equipment and three non-trivial adjustments, none of which affected the Authority's financial position. The Authority also made a small number of trivial adjustments, most of which were of a presentational nature and for completeness, the details of the non-trivial audit differences had been included in Appendix 1. Phil Johnstone placed on record that the Authority had good processes in place for the production of the financial statements, officers dealt efficiently with audit queries enabling the audit process to be completed within the planned timescales. He also paid credit to KPMG for building good relationship with officers in discussing specific risk areas and addressing issues appropriately. Members heard that the Authority's organisation and IT control environment was effective, controls over the key financial systems were sound and that internal audit were compliant with the Code of Practice for Internal Audit in Local Government. Phil Johnstone informed the Committee that KPMG anticipated issuing an unqualified audit opinion by 30 September 2013 and also reported that the wording of the Council's Annual Governance Statement accorded with KPMG understanding

Phil Johnstone added that although the financial statements were substantially complete, a signed management representation letter would be required before KPMG can issue an opinion. He confirmed that KPMG had complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements and would conclude that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. KPMG therefore anticipated issuing an unqualified value for money (VFM) conclusion by 30 September 2013 subject to consideration of any objection to the financial statements.

Phil Johnstone reported that the audit could not be closed until the Whole of Government Accounts (WGA) return had been completed. The deadline for the completion of the WGA was later than the accounts themselves and was due by 4 October 2013.

Stephen Lucas of KPMG informed members that they anticipated issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013. He added that the Authority had good processes in place for the production of the Fund's financial statements, sound controls over the Fund's key financial systems and adequate supporting working papers. He continued that officers also dealt efficiently with audit queries resulting in the audit process being completed within planned timescales.

In highlighting the main areas in the accounts, Mick Bowden, Deputy Director drew members attention to the 2012-13 outturn table that showed that the overall target of £12million of non-earmarked reserves had been achieved and that areas of over-spend including looked after children had been contained. He continued that over the year contributions for Section 106 agreements had added a sum of £1.7million although there were specific requirements as regards its use. Members heard that the move to the civic centre and the associated transitional costs would impact upon long term planned reserves. The Deputy Director added that although cash flow into the Pension Fund was positive there were challenges ahead.

In welcoming the report, members were united in expressing their appreciation to the Deputy Director and his team of officers for the excellent work they had done and as amplified by the external auditors.

RESOLVED:

- (i) that the adjustments made to the accounts and referred to in the reports from the Deputy Director of Finance be noted;
- (ii) that the letters of representation to the Audit Commission be approved;
- (iii) that the annual statement of accounts be approved.

## 6. Annual Governance Statement

The Committee considered a report that set out the Annual Governance Statement for 2011/12 as required by the Accounts and Audit Regulations 2011. Simon Lane, Head of Audit and Investigations, set out a number of significant governance issues identified and a summary of actions taken to address them. These included the following;

- a) The impact of a number of reforms to welfare benefits which were likely to impact more heavily in Brent than in any other London Borough with a consequent impact upon the need for support from various council services, such as temporary accommodation, children's and adult's services and customer services.
- b) Reductions in Housing Benefit for claimants living in social rented accommodation with "spare" bedrooms and the introduction of a local Council Tax Support scheme to replace the previous national scheme. Rent collection and Council Tax payments from claimants had remained relatively stable following this change, though sustaining increased payments may prove challenging.
- c) The government's Overall Benefit Cap implemented from August 2013 with significant impact on approximately 2000 claimants in Brent, many of whom could lose all or the majority of their housing benefit. The Council was attempting to mitigate this impact by encouraging employment and alternative housing options, but there was likely to be a significant increase in homelessness, and a reduction in landlords letting to benefit claimants, over the ensuing months.
- d) Beyond 2013 the national rollout of Universal Credit would present further challenges for claimants, landlords and local authorities, particularly relating to online claims, monthly budgeting requirements and the introduction of direct rent payments to claimants rather than landlords.
- e) The Council was undertaking a review of non-permanent staffing arrangements which would result in the reduction of expenditure on agency and consultant staff. A new agency contract let to Reed Employment had incentives built into the contract to ensure a reduced dependency on agency workers. A new HR contract manager had been appointed to drive down agency spend and negotiate preferential rates.

- f) During the year, an issue was identified regarding the under reporting of expenditure in 2011/12 within the placements budget within Children and Families. This resulted in a one off, unexpected, charge to the revenue budget for 2012/13 of £1m which had been addressed via the use of reserves within the service area and from other under-utilised budgets (virement). The unexpected charge highlighted a failure to adhere to proper accounting practices and was being addressed through improved systems.

It was explained by the Head of Audit and Investigations that this document was a statement on the council's overall governance arrangements and would be signed, once approved by the committee, by the Leader and Chief Executive.

RESOLVED:

that the Annual Governance Statement as set out in appendix 1 to the report from the Deputy Director of Finance be approved.

## **7. Corporate risk register**

The Committee considered a report that presented the council's current Corporate Risk Register following a review by the Corporate Management Team (CMT). Simon Lane, Head of Audit and Investigations stated that the register which identified the council's top strategic and operational risks had evolved over the last year through consultation with Departmental Management Teams (DMTs). He continued that the register had been the subject of review by the Corporate Management Team (CMT) in September 2013 and drew members' attention to the key changes as set out in the appendix to the main report. He clarified the proposal to remove the risks concerning the Civic Centre build, customer service and IT at the Civic Centre, as they were no longer considered strategic at this stage. Simon Lane highlighted the following new key operational risks: Regeneration and Growth concerning the Willesden Library Project and the drop in council tax and National Non Domestic Rate (NNDR) collection, reflecting the general economic climate and the government's welfare reforms. He undertook to assess the risks associated with the Assistant Chief Executive Department in liaison with the person appointed to the post.

In the ensuing discussion, members enquired as to why the Council was spending money on building it had vacated and how far this was likely to continue. The Deputy Director was also asked to confirm whether he took note of the risk of a purchaser not being able to proceed with a contract for the purchase of any of the council buildings.

The Deputy Director in response stated that the committed end periods for buildings formerly occupied by the council were taken into account although the council would look for opportunities to reduce these costs. He added that the marketing proposals for Brent House were progressing however, as the existing tenant occupied part of the building, the building was still in use. He also confirmed that a whole range of variables including non-performance of contract by a purchaser were built into the risk register.



Cllr Cummins identified a risk in the council's current telephony arrangements and queried whether or not this should feature on the register. Simon Lane, Head of Audit and Investigations stated that he would discuss the matter at the next opportunity with the relevant operational director.

RESOLVED:

that the contents of the Council's updated Corporate Risk Register be noted.

## 8. **1st Internal audit progress report**

Members had before them a report that summarised the work of Internal Audit and the Investigations Team from 1 April 2013 to 31 August 2013 together with assurance ratings of reports issued. Simon Lane, Head of Audit and Investigations informed members that a total of 361 days had been delivered against the overall Plan, made up of 256 Deloitte PSIA days and 105 days in-house days. This represented 28% of the Plan and a reduction in the level of delivery when compared with 2013/14 (38%).

The Head of Audit & Investigations continued that the main reason for the reduction in the level of delivery was due to the move to the Civic Centre which took place during June to August 2013. It effectively meant that services, including the Audit & Investigations Team, gave priority to the move which led to a number of audits being delayed. In a number of other instances audits have had to be postponed due to changes to structural changes across the organisation. He anticipated a significant progress in September and the rest of the third quarter of the year when a number of significant financial systems were scheduled to be reviewed. In addition, Deloitte had scheduled additional staff input during the period.

Simon Lane updated members that the Department of Works and Pensions (DWP) long term proposals for the Single Fraud Investigation Service (SFIS) were beginning to take shape. On 6 September 2013, the DWP announced their intention to take over responsibility for housing benefit fraud and residual council tax benefit fraud at some point during the 2014/15 financial year. They advised that responsibility would transfer in blocks with Brent being part of the London and the Home Counties group. Fraud investigations into local council tax support (the replacement for council tax benefit from 1<sup>st</sup> April 2013) would remain the responsibility of local authorities. There had not been any formal commitment to transferring investigation staff although the planning assumptions were that a significant number of investigation staff in local government would transfer to the DWP under TUPE arrangements.

Members heard that whilst there existed a centrally coordinated approach to business continuity planning, weaknesses were identified in the following areas: business continuity arrangements of contractors delivering key services; accuracy of priority ratings; linking Business Continuity Plan (BCP) and Risk Management Process; business continuity exercise; educating local business and voluntary organisations; sign off of business continuity review; and guidance on when to contact the Emergency Planning & Control team. He added that weaknesses were also identified in respect of linking all of the identified priorities within the recycling and waste project to quantifiable contributions, raising concerns about whether the

initiatives identified would be sufficient to deliver the required reduction in waste and increase in recycling.

During discussions, members took note of the number of recovered properties and the possibility of it in assisting to reduce the council's expenditure on bed and breakfast accommodation. Although they welcomed the report, members expressed concerns about the business continuity arrangements as outlined by officers to which Miyako Graham of Deloitte gave an assurance that they would follow up on the recommendations within six months.

RESOLVED:

that the progress made in achieving the 2013/14 Internal Audit Plan and the review of fraud work be noted.

9. **Any other urgent business**

None at this meeting.

10. **Date of next meeting**

RESOLVED:

to note that the next meeting would take place on 8 January 2014.

The meeting closed at 8.20 pm

D Ewart  
Chair



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# External Audit: Progress Report

## London Borough of Brent

January 2014

# London Borough of Brent

## External Audit: Progress report

<p><b>Summary of work performed by KPMG</b></p>	<p>Since the last Audit Committee meeting on 25 September 2013 we have issued for the financial year ending 31 March 2013 our;</p> <ul style="list-style-type: none"> <li>• Unqualified audit opinion on 26 September 2013;</li> <li>• Unqualified VFM conclusion on 26 September 2013;</li> <li>• Consistency conclusion on your Whole of Government Accounts (WGA) on 11 October 2013;</li> <li>• Audit Certificate on 11 October 2013; and</li> <li>• Annual Audit Letter.</li> </ul> <p>The Annual Audit Letter is attached to this report and includes more details on the above and includes a recommendation relating to the audit of the WGA.</p> <p>We also finalised our review of the appointment and departure of senior officers, the findings of which were reported in our Annual Governance Report and the attached Annual Audit Letter.</p> <p>We have completed our audit of your grant claims and issued our certificates on the four grant claims we are required to audit. A detailed grant report will be agreed with officers and presented to the next Audit Committee.</p> <p>The issue of the grant report will complete the work required for your 2012/13 financial year.</p>
<p><b>Summary of work proposed over next quarter</b></p>	<p>Our work over the next quarter will focus on:</p> <ul style="list-style-type: none"> <li>• Planning for our 2013/14 financial statements and value for money audits which will include meeting key officers;</li> <li>• Preparing our 2013/14 Audit Plans for the Authority and its Pension Fund for presentation at the Audit Committee on 19 March 2014;</li> <li>• Planning our interim accounts audit where we review the key financial controls supporting the production of financial information for inclusion within your financial statements; and</li> <li>• Discussing with officers the arrangements for our opinion audit visit and how we can ensure the audit is delivered with maximum efficiency for both the Authority and ourselves.</li> </ul>

<p><b>Actions</b></p>	<p>The Audit Committee is asked to:</p> <ul style="list-style-type: none"> <li>• <b>NOTE</b> this progress report.</li> </ul>
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<p><b>Contacts</b></p>	<p><b>Phil Johnstone</b>  <i>Director</i>  <i>KPMG LLP</i></p> <p>Tel: 020 7311 2091          Mob: 077 6974 2275  <a href="mailto:Philip.johnstone@kpmg.co.uk">Philip.johnstone@kpmg.co.uk</a></p>	<p><b>Steve Lucas</b>  <i>Senior Manager</i>  <i>KPMG LLP</i></p> <p>Tel: 020 7311 2184          Mob: 078 2500 8824  <a href="mailto:Stephen.lucas@kpmg.co.uk">Stephen.lucas@kpmg.co.uk</a></p>
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# London Borough of Brent

## External Audit: Progress report

### Local Government Update

Matter	Impact on the Council
<p><b>Recent publications</b></p> <p><b>Tough Times 2013</b></p> <p>The Audit Commission's latest research, "Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14", shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. But, the Commission says, with uncertainty ahead, councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.</p> <p>A survey of auditors appointed by the Commission, found that 89 per cent of councils experienced no significant difficulties in delivering their agreed budget in 2012/13 (compared with 88 per cent in 2011/12). The majority of councils (71 per cent) delivered their budgets without needing to take unplanned actions. Two thirds of councils (63 per cent) added to their reserves, while one third (37 per cent) reduced them. In aggregate, councils increased reserves by £0.9 billion in 2012/13 (7 per cent) – a smaller increase than in 2011/12.</p> <p>The Commission's research found that the three strategies most widely adopted by councils in response to their financial challenges since 2010/11 were: reducing overall staff numbers; delivering some services more efficiently; and reducing or restructuring the senior management team. From 2010/11 to 2012/13, reduced spending on staff accounted for 48 per cent of councils' total spending reductions.</p> <p>Auditors reported that some councils have found it harder to cope as funding levels have reduced. Three in ten councils (29 per cent) exhibited some form of financial stress in 2012/13, either experiencing significant difficulties in delivering their budget, taking unplanned actions to keep finances on track, or both.</p> <p>Auditors were concerned about the ability of one in ten councils to deliver their budget in 2013/14. A few of these have been a cause of concern in successive years. Factors giving auditors cause for concern this year included: the risk of councils not making adequate savings; rising cost pressures; weaknesses in financial controls; and uncertain prospects for income.</p> <p>About two-thirds of councils (64 per cent) were well placed, in the view of auditors, to deliver their medium-term financial plans. However, auditors have concerns about the medium-term financial prospects of one third of councils (36 per cent).</p> <p>The Commission also looked at what councils planned to spend on non-education services in 2013/14 compared with 2010/11. The largest average real-terms spending reductions by single tier and county councils were in planning and development services (37.6 per cent), cultural and related services (24.4 per cent) and General Fund housing services (23.4 per cent). Children's social care has been largely protected from spending reductions with councils increasing their spending by 1.2 per cent, on average, in real terms</p>	<p>For information.</p>



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# Annual Audit Letter 2012/13

London Borough of Brent

October 2013



The contacts at KPMG  
in connection with this  
report are:

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### Report sections

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### Appendices

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2. Summary of reports issued

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3. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

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 Phil Johnstone, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto: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 Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This report summarises the key findings from our 2012/13 audit of London Borough of Brent (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

<p><b>VFM conclusion</b></p>	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 26 September 2013. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p><b>VFM risk area</b></p>	<p>We identified two key risks to our VFM conclusion. The first was the Authority's plans to deliver its ongoing savings plan with £12m required in 2012/13 and an additional £7m in 2013/14 to address the further reductions to local authority funding.</p> <p>We reviewed the budget monitoring arrangements and found these to be robust. The savings planned for 2012/13 were delivered in line with the plan with the General Fund reserve being increased to £12m.</p> <p>We found that the Medium Term Financial Plan had considered the potential funding reductions and that it was sufficiently robust to assist the Authority in delivering services while maintaining financial stability.</p> <p>The second risk related to the appointment and departure of senior officers. Our review found that the Authority had followed appropriate procedures and that there were no issues that impacted on our value for money conclusion.</p>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on your financial statements on 26 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.</p>
<p><b>Financial statements audit</b></p>	<p>The audit of your financial statements identified one material adjustment within Property, Plant and Equipment and three non-trivial adjustments, none of which affected the Authority's financial position. There was no impact on the General Fund.</p> <p>The Authority has good processes in place for the production of the financial statements. Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.</p>
<p><b>Annual Governance Statement</b></p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>



All the issues in this letter have been previously reported with the exception of the Whole of Government Accounts not meeting the audit deadline. The detailed findings are contained in the reports we have listed in Appendix 2.

Pension fund audit	There were no significant issues arising from our audit of the pension fund.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. The Authority did not meet the deadline for submitting the pack to the auditors and there were delays in responding to audit queries. While we reported that the Authority's pack was consistent with the audited financial statements, this was completed on 11 October 2013, one week after the audit deadline. We have made a recommendation in Appendix 1 for the Authority relating to this.
Certificate	Due to the work on the Whole of Government Accounts not being completed at the time we issued our audit opinion, we were unable to issue our audit certificate with the opinion and VFM conclusion. We issued our audit certificate on 11 October 2013.
Audit fee	Our audit fee for 2012/13 was £272,367 (excluding VAT) for the audit of the Authority's financial statements and £21,000 (excluding VAT) for the audit of the Pension Fund. Further details are contained in Appendix 3.

## Appendix 1: Key issues and recommendations

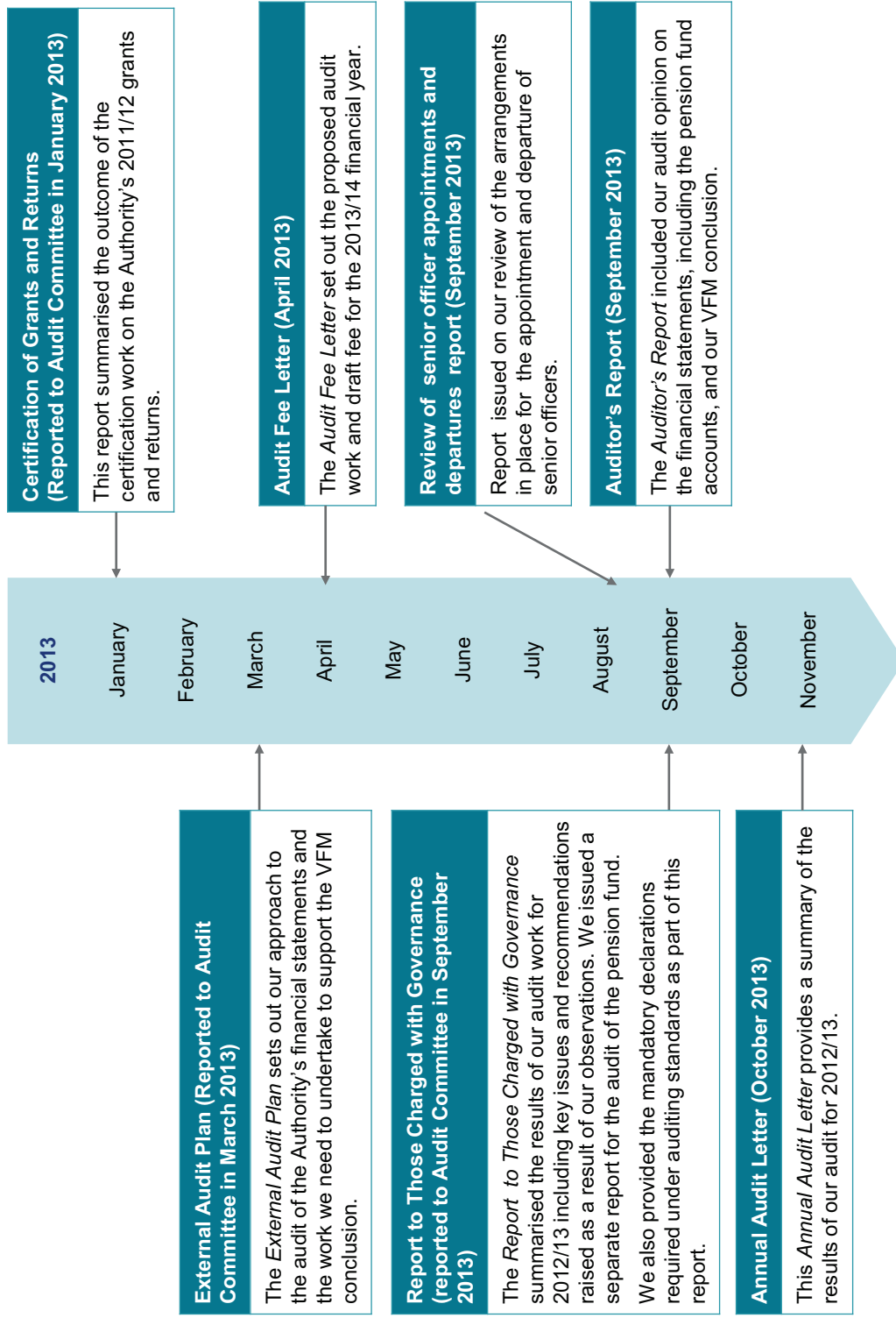
This appendix summarises the high priority recommendation that we identified during our 2012/13 audit, along with your response to it.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>There were delays in both the production of the Whole of Government Accounts and in responses to audit queries relating to them. The Authority also had technical problems with the consolidation pack which HM Treasury needed to resolve.</p> <p>We recommend that the Whole of Government Accounts consolidation pack and working papers are prepared to the same high standard as the main financial statements allowing time for internal quality review prior to audit.</p>	<p>There are two main elements to the improvements the Authority will make in this area:</p> <p>(1) Under the new finance structure the process will be undertaken by those staff that lead on the main financial statements and incorporated into that process to improve timeliness</p> <p>(2) The upgrade of the financial system this year includes the joint development by six councils to simplify production of financial accounts including the WGA. To make best use of this, the process used will be redesigned to take advantage of the improved chart of accounts</p> <p>Lead Officer: Mick Bowden, Operational Director - Finance Due Date: 30/6/14</p>

## Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since your last *Annual Audit Letter*.



This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

#### **External audit**

The initial scale fee set by the Audit Commission for the audit was £263,520. Due to additional risks identified to the value for money conclusion in connection with the appointment and departure of senior officers an additional audit fee of £8,847 was agreed with the Authority and approved by the Audit Commission. Thus the total audit fee was £272,367 compared to £439,200 for 2011/12. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

We also agreed an additional fee of £3,153 related to the appointment and departure of senior officers which was delivered outside the Code of Audit Practice.

This is in line with the fee that was presented to the Audit Committee in March 2013.

Our final fee for the 2012/13 audit of the Pension Fund was in line with the planned fee of £21,000.

#### **Certification of grants and returns**

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in December 2013.



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 <p><b>Brent</b></p>	<p style="text-align: center;"><b>Audit Committee</b> 8 January 2014</p> <p style="text-align: center;"><b>Report from the Chief Finance Officer</b></p>
<p>Wards Affected: ALL</p>	
<p><b>2013/14 Mid-Year Treasury Report</b></p>	

**1. SUMMARY**

1.1 This report updates Members on recent treasury activity.

**2. RECOMMENDATION**

2.1 The Committee is asked to note the 2013/14 mid-year Treasury report as also submitted to the Council and Executive.

**3. DETAIL**

**BACKGROUND**

3.1 The Council's Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, 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."

3.4 In addition to reporting on risk management, the Code requires the Authority to report on any financial instruments entered into to manage treasury risks.

**ECONOMIC BACKGROUND**

3.5 Growth rates have risen in most major economies in the last six months. The US and Germany continue to grow slowly and the Eurozone as a whole has started to experience slow growth. The UK is now growing comparatively quickly (0.7% growth in the second quarter of 2013) although sustained growth is still to

be delivered. Some developing economies are experiencing reduced growth compared to recent years. However, inflation in the UK is still largely under control with annual growth in the Consumer Price Index currently at 2.7%.

- 3.6 Gilt yields fluctuated in a narrow range for the first half of the year with a slight upward trend but suggestions that the Federal Reserve was on the verge of starting to unwind Quantitative Easing caused interest rates to rise by up to 1% over the summer. The movement in rates at which local authorities can borrow from the Public Works Loans Board (PWLB) is set out in the table below:

Period	March 2013	September 2013
1 year	0.9%	1.1%
5 year	1.6%	2.3%
10 year	2.6%	3.5%

The Federal Reserve's stance seemed to be more influential than the Bank of England's new regime of forward guidance in the short term, as the major moves over the summer reflected developments in the US rather than the UK. Eurozone markets were calm, but the feeling amongst many commentators was that this owed much to the natural summer pause and the (then) approaching election in Germany, and that there are still fundamental problems to be solved in many European economies.

- 3.7 The interest rate the Council receives on money market funds has changed little for 1-12 month maturities during the first half of the year at 0.4%.

#### DEBT MANAGEMENT

- 3.8 The Authority continues to qualify for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate). This is reviewed on an annual basis and has been confirmed as applying until 31 October 2014.
- 3.9 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 affordability, simplicity and ease of dealing with the PWLB represents a strong advantage. No long term loans have been raised so far this year as is shown in the table below:

	Balance on 01/04/2013 £m	Debt Repaid £m	New Borrowing £m	Balance on 30/09/2013 £m
Short Term Borrowing	0.0	67.0	97.4	30.4
Long Term Borrowing	432.3	2.1	0.0	430.2
TOTAL BORROWING	432.3	69.1	97.4	460.6
Average Rate %	4.69			4.41

- 3.10 Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 3.11 For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However this position will not be sustainable over the medium term and the Council will need to give careful consideration to its future capital programme and how this is financed in due course. Borrowing options and the



timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor, Arlingclose.

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

**INVESTMENT ACTIVITY**

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

	Balance on 01/04/2013 £m	Investments Made £m	Investments Repaid £m	Balance on 30/09/2013 £m
Short Term Investments	64.7	342.7	305.7	101.7

- 3.14 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. New investments were made with the following classes of institutions:

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

- 3.15 Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (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**

- 3.16 The Council's financing charges budget for the year is £26.7m, net of investment income of £0.6m and the latest estimate is that the Council will achieve this figure. The average cash balances, representing the Council's reserves and working balances, were £91m during the period.

- 3.17 The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016. Short-term money market rates have remained at very low levels.

**ICELANDIC BANK INVESTMENT UPDATE**

**Glitnir**

- 3.18 On 16 March 2012 the Council received £4m of its original £5m deposit. A further £1m remains in a ring-fenced account in Icelandic Krone, pending a decision of the Icelandic Central Bank to enable its return. At present the residual deposit is earning interest although the final sum returned to the Council will be affected by currency movements.

**Heritable**

- 3.19 The Council received £1.7m in August 2013, which means that only £0.6m of the original £10m deposit now remains outstanding. It is expected that further distributions will be made although there is no indication as to likely amounts.

#### **COMPLIANCE WITH PRUDENTIAL INDICATORS**

- 3.20 Officers confirm that they have complied with its Prudential Indicators for 2013/14, which were set in February 2013 as part of the Council's Treasury Management Strategy Statement (TMSS). Details can be found in Appendix 1.

#### **OUTLOOK**

- 3.21 At the time of writing this activity report in October 2013, economic growth remains slow but consistent. Tight credit conditions and weak earnings growth, as well as restrictive fiscal policy, are constraining consumer and corporate spending, but growth in real earnings is expected to resume in 2014. The outlook is for official interest rates to remain low for an extended period. Gilt yields rose in response to improved economic news and the prospect of an end to Quantitative Easing in the United States, but only limited rises are anticipated over the next two years. Markets will continue to be affected by the potential for a US sovereign default, although the recent agreement to suspend the debt ceiling until 7 February 2014 provides further time for agreement on the US budget.

#### **SUMMARY**

- 3.22 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 2013/14. 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**

None.

#### **6 STAFFING IMPLICATIONS**

None.

#### **7 LEGAL IMPLICATIONS**

None.

#### **8 BACKGROUND**

Annual Treasury Strategy – Report to Full Council as part of the Budget Report – February 2013.

Persons wishing to discuss the above should contact the Anthony Dodridge Treasury and Pension Investments Section, Finance, on 020 8937 1472/74 at Brent Civic Centre.

CONRAD HALL  
Chief Finance Officer

## Appendix 1

### Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below (excluding Private Finance Initiative schemes):

	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
CFR	559	559	559	552

### Usable Reserves

Estimates of the Council's level of Usable Reserves for 2013/14 to 2015/16 are as follows:

	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
Usable Reserves	58	35	24	21

### 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 £800m for 2013/14. 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 2013/14 was set at £700m. The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary so far this year; borrowing at its peak was £466m.

#### 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 2013/14	Maximum during 2013/14
Upper Limit for Fixed Rate Exposure	100%	100%
Upper Limit for Variable Rate Exposure	40%	0%

### 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 30/09/13 £m	% Fixed Rate Borrowing as at 30/09/13	Compliance with Set Limits?
Under 12 months	40	0	34	7	Yes
12 months and within 24 months	20	0	4	1	Yes
24 months and within 5 years	20	0	13	3	Yes
5 years and within 10 years	60	0	25	5	Yes
10 years and above	100	0	385	84	Yes

### 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 2013/14, 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 2013/14 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. At 30 September, the last maturity date in the deposits portfolio was 1 July 2014.

### 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, with advice and support from our advisers, Arlingclose:

- 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 A- or equivalent, as set in the 2013/14 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	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
HRA CFR	137	141	141	141
HRA Debt Cap (as prescribed by CLG)	199	199	199	199
Difference	62	58	58	58

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 <b>Brent</b>	<p style="text-align: center;"><b>Audit Committee</b> 8 January 2014</p> <p style="text-align: center;"><b>Report from the Chief Finance Officer</b></p>
<p>For Information <span style="float: right;">Wards Affected: ALL</span></p>	
<b>Treasury Management Strategy 2014/15</b>	

## 1. Summary

- 1.1. This report presents the draft Treasury Management Strategy for 2014/15 for consideration by the Committee. The final version of the Strategy, incorporating the views of the Committee, will be included in the budget report to be approved by the Council on 3 March 2014.

## 2. Recommendations

- 2.1 The Audit Committee considers and comments on the draft Strategy.

## 3. Detail

- 3.1 The Strategy will set the framework for Treasury Management activity in 2014/15 and includes:
- Current levels of borrowing and investments
  - Interest rate outlook
  - Approach to future borrowing
  - Approach to future investments

## 4. Financial Implications

- 4.1 The Council's external interest budget is for 2013/14 is £14.8m, with budgeted investment income of £0.6m. The setting of the capital financing budget for 2014/15 will form part of the overall budget decision to be taken by the Council on 3 March 2014.

**5. Legal Implications**

None

**6. Diversity Implications**

None

**7. Staffing Implications**

None

**8. Background Papers**

Annual Treasury Strategy – Report to Full Council as part of the Budget Report – February 2013.

**9. Contact Officer Details**

Chris Thompson, Principal Investment Officer 020 8937 1474

**Conrad Hall**  
**Chief Finance Officer**



## Appendix 1

# TREASURY MANAGEMENT STRATEGY STATEMENT

## Introduction

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services requires local authorities to determine their Treasury Management Strategy Statement (TMSS).
2. As per the requirements of the Prudential Code of Practice, 2011, the Authority has adopted the CIPFA Treasury Management Code and reaffirmed its adoption at its annual Budget meeting, most recently on 25 February 2013.
3. The purpose of this TMSS is, therefore, to approve the following:
  - i. Treasury Management Strategy for 2014/15
  - ii. Annual Investment Strategy for 2014/15

The approved Strategies will be implemented from the date of approval by the Council.

4. The Authority has borrowed substantial sums of money and has a significant amount invested and therefore, has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is, therefore, central to the Authority's Treasury Management Strategy.

## Capital Financing Requirement

5. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with usable reserves, are the core drivers of the Authority's Treasury Management activities.
6. At 30 November, 2013 the Authority's had £488m of long and short-term debt and £103m of investments. These are set out in further detail below.

## Existing Investment & Debt Portfolio Position

Table 1

	30/11/2013 Actual Portfolio £m	30/11/2013 Average Rate %
<b>External Borrowing:</b>		
PWLB – Maturity	288	5.01
PWLB – EIP	45	2.55
Local Authorities	59	0.37
LOBO Loans	96	4.73
<b>Total Gross External Debt</b>	488	4.17
<b>Investments:</b>		
Market Deposits	101	0.62
Money Market Funds	2	0.34
<b>Total Investments</b>	103	0.62
<b>Net Debt</b>	385	

- 7 The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. The Authority's current strategy is to maintain borrowing at the lowest level possible unless interest rate prospects present a clear case for taking long term borrowing ahead of immediate requirements. This implies that the Council will continue borrow less than its CFR in the near future.

### Interest Rate Forecast

- 8 The Arlingclose and Capital Economics forecast that official UK Bank Rate will remain at 0.5% possibly until late 2016. Officers will monitor developments with the advice of Arlingclose but giving due regard to other published information.

### Borrowing Strategy

- 9 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue for the foreseeable future. As borrowing is often for longer dated periods (anything up to 60 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position. Therefore, the Council does not intend to borrow in advance of need to fund its activities.
- 10 The Authority will adopt a flexible approach to any future long-term borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The

following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

### **Sources of Borrowing and Portfolio Implications**

- 11 In conjunction with advice from Arlingclose, the Authority will keep under review the following borrowing sources:
  - Internal balances
  - PWLB
  - Other local authorities
  - European Investment Bank
  - Leasing
  - Structured finance
  - Capital markets (stock issues, commercial paper and bills)
  - Commercial banks
  
- 12 The cost of carry has resulted in an emphasis on the use of internal resources and then increased use of shorter dated borrowing and repayment by Equal Instalments of Principal (EIP). This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. It also maintains an element of flexibility to respond to possible future changes in the requirement to borrow. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review.
  
- 13 The Authority has £95.5m exposure to LOBO loans (Lender's Option Borrower's Option) of which £21.0m of these can be "called" within 2014/15. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan, at which point the Borrower can accept the revised terms or reject them and repay the loan without penalty. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion which is compensated for by a lower interest rate being paid.
  
- 14 Any LOBOs called will be discussed with Arlingclose prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted. In the current environment it is unlikely that LOBOs will be called, but officers are confident that if any are, these could be repaid from resources available, or refinanced more cheaply if this was felt to be advantageous.

## **Debt Rescheduling**

- 15 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.
- 16 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans have adversely affected the scope to undertake worthwhile debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:
- Reduce investment balances and credit exposure via debt repayment
  - Align long-term cash flow projections and debt levels
  - Savings in risk adjusted interest costs
  - Rebalancing the interest rate structure of the debt portfolio
  - Changing the maturity profile of the debt portfolio
- 17 Borrowing and rescheduling activity will be reported to the Executive and Council in the Annual Treasury Management Report and the mid year report.

## **Annual Investment Strategy**

- 18 In accordance with investment guidance issued by the Department for Communities and Local Government (CLG), and best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, followed by the yield earned on investments.
- 19 The Authority and its advisors remain alert for signs of credit or market distress that might adversely affect the Authority.
- 20 Investments are categorised as Specified or Non-Specified within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They are also of a high credit quality as determined by the Authority and are not investments that needed to be accounted for as capital expenditure. Non-specified investments are, effectively, everything else. Investments for more than a year remain non-specified until they mature.
- 21 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

**Table 2: Specified and Non-Specified Investments**

Investment	Specified	Non-Specified
Term deposits with banks and building societies	<input type="checkbox"/>	<input type="checkbox"/>
Term deposits with other UK local authorities	<input type="checkbox"/>	<input type="checkbox"/>
Investments with Registered Providers	<input type="checkbox"/>	<input type="checkbox"/>
Certificates of deposit with banks and building Societies	<input type="checkbox"/>	<input type="checkbox"/>
Gilts	<input type="checkbox"/>	<input type="checkbox"/>
Treasury Bills (T-Bills)	<input type="checkbox"/>	<input type="checkbox"/>
Bonds issued by Multilateral Development Banks	<input type="checkbox"/>	<input type="checkbox"/>
Local Authority Bills	<input type="checkbox"/>	<input type="checkbox"/>
Commercial Paper	<input type="checkbox"/>	<input type="checkbox"/>
Corporate Bonds	<input type="checkbox"/>	<input type="checkbox"/>
AAA-Rated Money Market Funds	<input type="checkbox"/>	<input type="checkbox"/>
Other Money Market Funds and Collective Investment Schemes	<input type="checkbox"/>	<input type="checkbox"/>
Debt Management Account Deposit Facility	<input type="checkbox"/>	<input type="checkbox"/>

- 22 Registered Providers (Housing Associations and Registered Social Landlords) have been included within specified and non-specified investments for 2014/15. Any investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose prior to investing.
- 23 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). Within these criteria the Chief Finance Officer (CFO) will have discretion to accept or reject individual institutions as counterparties on the basis of any information which may become available. The countries and institutions that currently meet the criteria for investments are included in Annex A. The Council uses the lowest rating quoted by Fitch, Standard and Poor or Moody, as recommended by CIPFA.
- 24 Any institution will be suspended or removed should any of the factors identified above give rise to concern, and caution will be paramount in reaching any investment decision regardless of the counterparty or the circumstances. Credit ratings are monitored continually by the Authority, using the advice of Arlingclose on ratings changes, and action taken as appropriate.
- 25 The Authority banks with National Westminster Bank (Natwest) and, at the current time, it meets the Authority's minimum credit criteria.

## Investment Strategy

- 26 With short term interest rates expected to remain low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns
- 27 In order to diversify a portfolio largely invested in cash, investments will be placed with a number of approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set by the Chief Finance Officer to ensure that prudent diversification is achieved.
- 28 Money market funds (MMFs) will be utilised but good treasury management practice prevails, and whilst MMFs provide good diversification, the Authority will also seek to mitigate operational risk by using at least two MMFs where practical. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In addition, each Fund will be limited to a maximum deposit of £10m and no more than half the Council's deposits will be placed with MMFs.
- 29 The investment strategy will provide flexibility to invest cash for periods of up to 370 days in order to access higher investment returns, although lending to UK local authorities can be for up to 5 years. The upper limit for lending beyond a year is £20m. In practice, lending for more than one year will be only to institutions of the highest credit quality and at rates which justify the liquidity risk involved.
- 30 Collective Investment Schemes (Pooled Funds):  
The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in pooled funds will be undertaken with advice from Arlingclose. The Authority currently has no investments in Pooled Funds.
- 31 Investment Policy:  
Treasury Management in the Public Services: Code of Practice (the Code) was updated in November 2011, with a greater focus on risk management and significance of capital security as the Council's primary objective in relation to investments.
- 32 The Council will create and maintain, as the cornerstones for effective treasury management:-
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  - The Policy Statement was approved last year and is not being revised.

## **Policy on Use of Financial Derivatives**

- 33 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy. Where schemes contain an embedded derivative, it will be subject to evaluation as part of the appraisal of the particular scheme.
- 34 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and any relevant foreign country limit.
- 35 The Authority will only use derivatives after seeking expertise, receiving a legal opinion and ensuring officers have the appropriate training for their use.

## **Policy on apportioning Housing Revenue Account HRA**

- 36 Central Government completed its reform of the HRA Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in a way which is fair to the HRA without detriment to the General Fund. The guidance is very general, so the Council is required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that local authorities outline this policy in their TMSS.
- 37 As of 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Individual loans or parts of loans have been allocated to the HRA, on the basis of achieving the same long term rate as that which applied to the General Fund at the self financing date. In the future, new long-term borrowing will be assigned in its entirety to one pool or the other, allocating the costs and benefits to each accordingly.
- 38 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow will result in a notional element of internal borrowing. This balance will be assessed over the year and interest charged to the HRA at an appropriate rate for short term borrowing. The HRA will also hold reserves and balances which will be invested with the Council, and interest will be paid on identified balances at a rate which recognises that any investment risk is borne by the General Fund.

## **Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

- 39 The CFO will report to the Executive and Full Council on treasury management as follows:
- Annually, against the strategy approved for the year.
  - A mid-year report on the implementation of strategy and main features of the year's activity to date.

## **Training**

- 40 CIPFA's Code of Practice requires the CFO to ensure that all members with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Arlingclose delivered a training session for members on 2 July 2013. Staff regularly attend training courses, seminars and conferences provided by Arlingclose, CIPFA and others. Relevant staff are also encouraged to study for professional qualifications from CIPFA and other appropriate organisations.

## **Treasury Management Advisers**

- 41 The Authority uses Arlingclose as Treasury Management Advisers and receives the following services:
- Credit advice
  - Investment advice
  - Technical advice
  - Economic & interest rate forecasts
  - Workshops and training events
  - HRA support
  - Other matters as required

The Authority maintains the quality of the service with its advisers by holding quarterly meetings and tendering periodically.



**Annex A**

**ANNUAL INVESTMENT STRATEGY 2014/15**

**List of institutions which meet the Council's credit worthiness criteria:**

<b>Jurisdiction</b>	<b>Counterparty</b>
UK	Lloyds TSB/ Bank of Scotland
UK	Barclays Bank plc
UK	Close Brothers Ltd
UK	Goldman Sachs International
UK	HSBC Bank plc
UK	Leeds Building Society
UK	Nationwide Building Society
UK	National Westminster Bank/RBS plc
UK	Santander UK plc
UK	Standard Chartered Bank
Australia	Australia and N Z Banking Group
Australia	Commonwealth Bank of Australia
Australia	National Australia Bank Ltd
Australia	Westpac Banking Corp
Canada	Bank of Montreal
Canada	Bank of Nova Scotia
Canada	Canadian Imperial Bk of Commerce
Canada	Royal Bank of Canada
Canada	Toronto-Dominion Bank
Finland	Nordea Bank
Finland	Pohjola Bank plc
Germany	Deutsche Bank AG
Germany	Landesbank Hessen-Thuringen
Netherlands	Bank Nederlandse Gemeenten
Netherlands	Cooperatieve Centrale Raiffesen
Netherlands	ING Bank NV
Singapore	DBS Bank Ltd
Singapore	Oversea-Chinese Banking Corp

Singapore	United Overseas Bank Ltd
Sweden	Svenska Handelsbanken
Switzerland	Credit Suisse AG
US	JPMorgan Chase Bank NA

The list above represents the institutions which meet the criteria at the time of preparation of the strategy. The Authority's Chief Finance Officer may introduce new names which meet the criteria from time to time and may adopt more restrictive limits on maturity or value as seems prudent. The Council may also lend any amount to any UK national or local government body for up to 5 years.

An operational list of institutions which are approved to take deposits from the Council will be prepared and circulated to dealing and approving Officers from time to time.

Group Limits - for institutions within a banking group, the authority may lend the full limit to a single bank within that group, but may not exceed the limit for all group members.

## **Annex B**

### **Non-Specified Investments**

#### **Instrument**

Call accounts, term deposits and Certificates of Deposit (CDs ) with banks, building societies and local authorities which do not meet the specified investment criteria (on advice from Arlingclose)

Deposits with registered providers

Gilts

Bonds issued by multilateral development banks

Sterling denominated bonds by non-UK sovereign governments

Money Market Funds rated below AAA and Collective Investment Schemes

Corporate and debt instruments issued by corporate bodies

Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573. These would be capital expenditure.

The Authority will hold up to a maximum of £30m in non-specified investments at any time, which may all be in one category subject to individual counterparty limits.

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 <b>Brent</b>	<b>Audit Committee</b> 8 January 2014  <b>Report from the Chief Finance Officer</b>
For Information <span style="float: right;">Wards Affected: ALL</span>	
<b>Internal Audit Progress Report 2013/14</b>	

## 1. Summary

- 1.1. This report presents a summary of the work of Internal Audit and the Investigations Team from 1st April 2013 to 30th November 2013. The appendix provides further details of audit reports issued.

## 2. Recommendations

- 2.1. That the Audit Committee notes the progress made in achieving the 2013/14 Internal Audit Plan and the review of fraud work.

## 3. Detail

### Internal Audit - Progress

- 3.1. The Internal Audit Plan for 2013/14<sup>1</sup> comprises 1,248 days, including 48 days brought forward from the previous year which were not delivered. The majority, 953 days, of the plan is delivered through Deloitte Touche Public Sector Internal Audit Limited called off from a framework contract procured by Croydon Council. A small in-house team deliver a further 295 days.
- 3.2. As at 30<sup>th</sup> November 2013 a total of 663 (53%) days have been delivered against the plan. At a similar point last year some 63% had been delivered and the majority of the key financial systems audit work was already in progress during quarter 3.

Plans are in place to deliver additional days within the remainder of quarter 3 and quarter 4, particularly in relation to post migration audit work around the key financial systems (Accounts Payable; Accounts Receivable; General Ledger and Payroll) and in the area of public health.

3.3. The Head of Audit & Investigations alerted members to the slow progress being made against the plan at the Audit Committee meeting in September 2013<sup>2</sup>. The cause of the slow start was due to projects being deferred by management, partly caused by preparations for the move to the civic centre and structural changes across the council which changed responsibility for systems. Some projects could not be delivered due to anticipated system/policy changes and some were identified as no longer relevant. Although the internal audit contractor is relatively flexible and able to respond, to some degree to peaks and troughs in workload, these delays place additional pressure on the team as increased resources have to be applied by in quarters three and four to ensure the plan is delivered. In addition to delays in commencing audits, it is apparent that audit field work and clearance of draft reports is taking longer due to staff leaving the organisation. The original audit plan, agreed by the Audit Committee in March 2013 has been subject to amendment due to the changes referred to above. Where projects are removed or deferred, the consequent available resource is allocated to new projects. The key changes to the plan are set out below:

- Key Financial Systems – Additional 20 days added to plan for testing both pre and post migration transactions on Oracle (accounts payable, receivable, general ledger and payroll)
- Sexual Health Contracts - 10 day audit removed and to be covered as part of Public Health Grants to Voluntary Organisations.
- Placements – 25 day audit added to at the request of management
- Brent Foster Carers – 12 day audit added to plan at the request of management
- Kingsbury Resource Centre – 10 day audit added to plan at the request of management
- Private Nurseries – 20 day audit added to plan as a result of two fraud enquiries

- Highways Maintenance - Deferred by Audit and Investigation due to other projects being required
- Vale Farm Contract – Removed from plan as contract re-let in November 2013 and Ealing Council will be responsible for contract management.
- Procurement – Audit deferred due to delays in the implementation of One Oracle Category Management.
- Ward Working - 15 days replaced by an audit of Grants to Voluntary Organisations due to issues highlighted as a result of another audit.

3.4. The original audit plan contained 75 projects with an identifiable deliverable. Changes in year have resulted in the number of deliverables increasing to 81. To date, 28 draft and final reports have been issued, representing 35% of the total. Resources are available within the internal audit contractor to recover the position by year end. However, successful delivery assumes that auditees are able to respond to requests for information within appropriate timescales. The status of original and revised projects on the current plan is set out in table 1 below:

Audit	Days in the plan	Revised Days	Total days delivered	Progress	Assurance Opinion/ Direction of Travel	Recommendations made			Issue Date
						1	2	3	
<b>CROSS COUNCIL / CORPORATE AUDIT</b>									
Disclosure & Barring (formerly CRB checks)	20	25	25	Draft Report to be Issued					
Sickness & Absence Management	20	20	18	WIP					
Business Continuity Planning & Emergency Planning	10	10	10	Final Report	Limited (Improved)	1	4	2	12/09/2013
GPC Cards	20	0	0	Withdrawn by A&I due to in depth cross council testing and system recommendations by investigation team following fraud enquiry					
Corporate Income Collection Arrangement (Original focus was cemeteries and mortuary income)	10	10	0	Due in Q1 but postponed to Q4 due to change in focus of audit following change in responsibility for area and corporate arrangements now in place at the Civic Centre					
Payments to Public Health Contracts (Transfer of responsibilities from PCT to Council )	10	10	1	Due in Q1 but systems not operational. Postponed to Q4.					
Public Health	25	25	1	Due in Q1 but systems not operational. Postponed to Q4.					

Contract Management									
<b>CROSS COUNCIL / CORPORATE Total</b>	<b>115</b>	<b>100</b>	<b>55</b>						
<b>FINANCE</b>									
Accounts Payable	15	15	0	This is post migration work and due for Q4 depending on go live					
Accounts Receivable	15	15	0	This is post migration work and due for Q4 depending on go live					
General Ledger	15	15	0	This is post migration work and due for Q4 depending on go live					
Pension Fund Investments	10	10	10	Draft Report (under review)	Substantial	0	4	1	13/11/2013
Governance Risk & Compliance Oracle Module	6	3	0	Lack of progress in developing module					
One Oracle Project (Meeting attendance)	5	5	5	Advisory					
Insurance	15	15	15	Draft Report	Limited (Deteriorated)	9	5	1	13/11/2013
Pre-Migration Audit - (AP/AR/GL/HR/Payroll)	0	20	17	Work In Progress					
<b>Finance Total</b>	<b>81</b>	<b>98</b>	<b>47</b>						
<b>EDUCATION, HEALTH &amp; SOCIAL CARE</b>									
Christchurch	10	0	0	Deferred to 2014/15 at request of school					
Mount Stewart Junior	10	10	10	Draft Report	Substantial	4	6	4	21/11/2013
Our Lady of Grace Infants (after summer)	10	11	11	Draft Report	Substantial	3	9	4	19/11/2013
Our Lady of Grace Juniors	10	10	10	Final Report	Substantial	4	13	2	19/11/2013
Woodfield	10	10	18	Final Report	Limited	9	19	1	29/11/2013
Michael Sobell Sinai	10	0	0	Deferred to 14/15 at request of school					
Byron Court	10	13	13	Final Draft Report	Limited	4	13	5	12/09/2013
Manor Day	10	10	9	WIP					
Copland	10	0	0	Removed from plan due to academy proposals					
Braintcroft	10	10	9	WIP					
Harlesden	10	10	0	Due Q3 deferred to Q4 due to staff illness					
Kingsbury Green	0	10	10	Draft Report	Substantial (Improved)	2	7	4	29/11/2013
Malorees Infants	10	0	0	Deferred to 2014/15 at request of school					
Our Lady of Lourdes	10	10	10	Final Report	Substantial (Improved)	1	4	6	02/10/2013



Donnington	10	10	10	Final Report	Substantial	2	6	4	23/07/2013
Fryent	10	10	10	WIP					
Northview	0	10	7	Work in Progress					
Mount Stewart Infants	0	10	10	Draft Report	Substantial	4	6	4	21/11/2013
Other School Issues / Training	0	10	2	Ongoing					
Follow up work for the schools with Limited Assurance	20	30	13	Ongoing	Non Assurance Work				
Frameworkki (migration from various miscellaneous systems)	20	0	0	Due Q1 but replaced with two separate projects in light of system developments					
Troubled Families Programme Systems	15	0	0	Not done due to systems issues being picked up as a result of certification work					
Capital Grant Funding for Nursery Places for 2 Year Olds	5	5	5	Complete	Non Assurance Work			31/05/2013	
Gordon Brown Education Centre	10	10	2	Work in Progress					
Single Commissioning Unit (Children and Adult Social Services)	5	5	0	To be discussed with management					
Soft Box - Migration of Data on Abacus to Frameworkki	10	12	12	Draft Report	Limited	3	3	1	14/11/2013
Safeguarding	15	15	0	Due Q4					
Transitions Team (14-25 year old)	15	15	0	Delayed due to team restructuring but likely to go ahead in Q4					
Sexual Health Contracts	10	0	0	Transferred to Contingency as to be covered as part of Public Health Audits - Grants to Voluntary Organisations					
Carers Audit	10	10	10	Draft Report	Limited	5	2	1	14/11/2013
Troubled Families Grant Claim Certification Families Worked with June 2013	0	5	5	Claim certified					15/7/2013
Troubled Families Grant Claim Certification Families Worked with August 2013	0	5	5	Claim certified					23/8/2013
Troubled Families Grant Claim Certification Payment By Results August 2013	0	5	5	Claim certified					23/8/2013
Troubled Families Grant Claim Certification Payment By Results October 2013	0	6	6	Claim certified					25/10/2013

Troubled Families Grant Claims January 2014, March 2014	0	4	0	Due Q4					
Frameworki purchasing	0	12	12	Final Report	Limited	5	2	2	09/08/2013
Frameworki payments	0	11	11	Draft Report	Not applicable			9/10/2013	
Public Health Board	0	5	2	Ongoing					
Placements	0	25	20	Due Q3, WIP but delayed due to restructure within dept.					
Brent Foster Carers	0	12	0	Q4					
Frameworki Board Advisory	0	3	1	Ongoing					
Kingsbury Resource Centre	0	10	7	WIP					
Nurseries	0	20	1	Planning meeting held and audit to commence in January 2014					
<b>EH&amp;SC Total</b>	<b>285</b>	<b>379</b>	<b>256</b>						
<b>ENVIRONMENT &amp; NEIGHBOURHOOD (E&amp;N)</b>									
Parking	20	20	0	Q4					
Highways Maintenance	15	0	0	Deferred to 14/15 by A&I					
Recycling & Waste	10	10	10	Final Report	Limited	1	1	0	26/06/2013
PFI - Street Lighting review of energy consumption data	5	3	3	Ill defined scope by management, project withdrawn by A&I during course of audit					
Vale Farm Contract	10	0	0	Due Q3, but withdrawn due to change in responsibility for contract management, now with LB Ealing. Needs different scope in 14/15.					
<b>E&amp;N Total</b>	<b>60</b>	<b>33</b>	<b>13</b>						
<b>GOVERNANCE &amp; CORPORATE SERVICES</b>									
Procurement	15	0	0	Deferred to 2014/15 due to delay in implementation of oracle					
Payroll systems audit	20	20	0	Q4 Depending on Oracle Go Live					
Members expenses and allowances	8	8	8	Final Report	Substantial (Deteriorated)	0	1	2	06/08/2013
Freedom of Information	10	15	15	Draft Report (under revision)	Limited	7	10	0	20/9/2013
<b>G &amp; CS Total</b>	<b>53</b>	<b>43</b>	<b>23</b>						
<b>REGENERATION &amp; GROWTH (R&amp;G)</b>									
Capital Projects (contract audits)	30	30	0	Q4					
Civic Centre Project -	15	15	0	Q4					

Final Accounts									
Homelessness and Temporary Accommodation/Choice based letting/Housing Allocations	20	20	0	Q4					
S106	10	10	0	Q3					
Council Tax	15	15	13	WIP					
Local Council Support Scheme (formerly Council Tax Benefit)	12	12	9	WIP					
National Non Domestic Rates (NNDR)	15	15	13	WIP					
Use of NNDR Funds	5	5	0	Q4					
Housing Benefits / Discretionary Payments	20	20	14	WIP					
<b>R&amp;G Total</b>	<b>142</b>	<b>142</b>	<b>49</b>						
<b>ASSISTANT CHIEF EXECUTIVE'S PORTFOLIO</b>									
Data Quality	10	10	10	Draft Report	Substantial	1	3	1	13/11/2013
Complaints	10	12	8	WIP					
Ward Working	15	0	0	Due Q1 but replaced with Grants to Voluntary Organisations in Q4					
Grants to Voluntary Organisations	0	10	0	Q4					
<b>ACEP Total</b>	<b>35</b>	<b>32</b>	<b>18</b>						
<b>IT Audits (132 Days)</b>									
Oracle - Pre Implementation	10	16	16	WIP					
Oracle - Post Implementation	8	12	0	Q4					
Migration of Appointeeship and Deputyship (Abacus, ResFunds, Quicken)	10	14	14	Final Draft Report	Limited	1	2	0	28/08/2013
View 360	10	10	10	Draft Report	Substantial (unchanged)	0	4	0	26/11/2013
Infostore - Apps Sharepoint Implementation	10	10	0	Q4					
Academy	10	10	10	Final Report	Substantial (Unchanged)	0	4	3	20/09/2013
Telecommunications (telephony with iphones and also to include Ipads)	15	20	1	Q4					

Security and management)										
I Pads Security and Management *	8	0	0	Now included in Telecommunications audit						
Network Infrastructure	20	15	0	Q4						
Remote Access	12	10	0	Q4						
Follow Up	8	8	2	On going						
Planning for 13/14 audit	1	1	1	Complete						
	122	126	54	10 days included in BHP Audit Plan						
<b>OTHER</b>										
Risk Management	15	15	5							
Governance & Audit Planning 2014/15	13	12	0							
Consultation, Communication and Reporting (Deloitte)	55	55	44							
Follow-Up	45	45	18							
A&I Office Move and archiving	10	15	15							
Contingency	19	3	0							
<b>OTHER Total</b>	<b>157</b>	<b>145</b>	<b>82</b>							
<b>Brent Housing Partnership (BHP)</b>										
Housing Repairs and Maintenance	12	12	0	Q4						
Housing Rents	8	8	8	Draft Report	Substantial	0	4	2	31/10/2013	
Major Works Contracts	10	10	0	Q4						
Financial Management	12	0	0	Replaced with Key Financial Systems Transactions Testing						
Key Financial Systems Transactions Testing - AR/AP/GL & Payroll	0	12	8	Work in Progress						
Rent Arrears Management	12	12	2	Work in Progress						
Budget Management	0	8	1	Work in Progress						
Treasury Management & Investment	8	0	0	Replaced with Budget Management						
Voids and Disrepair	10	10	12	Work in Progress						

Fire Safety and Gas Servicing	12	12	11	Work in Progress
Management of Non Brent Properties	12	12	0	Q4
Resident Involvement	12	12	8	Work in Progress
Leasehold Management and Service Charges	12	12	1	Audit Planning Meeting on 6th December and audit to start soon after
V5	10	0	0	Replaced with One Oracle Pre-migration audit below
One Oracle Pre-Migration	0	10	3	Work in Progress
Management and Follow up	20	20	12	
<b>BHP Total</b>	<b>150</b>	<b>150</b>	<b>66</b>	
<b>Total</b>	<b>1200</b>	<b>1248</b>	<b>663</b>	

**Table 1 – Planned Projects and Progress as at 30/11/2013**

3.5. A summary of progress is set out in table 2 below:

<b>Delivery Status</b>	
Total days in the plan	1248
Number of days delivered to date	663
% of days delivered to date	53%
Days to be delivered	585
Total number of reports to be delivered in current plan	81
Number of draft/final reports/certifications issued to date	28
% of reports issued to date	35%

**Table 2 – Delivery Status as at 30/11/13**

### **Internal Audit - Public Sector Internal Audit Standards (PSIAS)**

- 3.6. In April 2013 the Public Sector Internal Audit Standards (PSIAS) came into force. These replace the CIPFA Code of Practice on Internal Audit in the Local Government in the United Kingdom (2006). The standards mandatory for all local authorities and establish the framework within which internal audit must operate. A copy of the standards can be viewed here: <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>
- 3.7. Many of the requirements will be familiar to members, as they existed in the earlier standards, such as:
- The code of ethics for individual auditors including integrity, objectivity, competency and confidentiality
  - Defining and agreeing internal audit purpose and authority
  - Organisational independence of the internal audit function
  - Exercising due professional care
  - Effective planning and resourcing of assignments and quality assurance processes
  - Delivering an annual audit opinion on the control environment
- 3.8. A key change in the new standard is the requirement to have an external, independent assessment of internal audit once every five years. These must be conducted by a suitably qualified independent assessor from outside the organisation. The Head of Audit is required to discuss with the Audit Committee the form of this external assessment and the qualifications and independence of the assessor. The scope of the assessment must be agreed with either or both the Director of Finance and Chair of the Audit Committee. A recommendation regarding proposals for this external assessment will be brought to a future meeting of this committee.

### **External Audit - Local Audit and Accountability Bill**

- 3.9. This bill is progressing through the House of Commons and is in its final stages. Royal assent is likely in December 2013. The bill will abolish the Audit Commission on 31<sup>st</sup> March 2015 and transfer any remaining functions to other bodies. It also introduces the requirement for the council to appoint its own external auditors. KPMG have been appointed for a five year period from 2012/13, the council should plan to make its first appointment for the 2017/18 year. The appointment will have to be made by 31<sup>st</sup> December 2016 by an independent appointment panel which must have a majority of independent members.

3.10. The bill makes provision for local authorities to jointly procure and for a single independent panel to make decisions on behalf of a number of authorities. Given the procurement process will take a number of months, depending on decisions with regard to joint procurement and length of appointment, an independent panel will need to be in place in sufficient time to allow for proper consideration of contract specification, evaluation criteria etc. This will be a complex procurement and the first time the council has been required to engage its own external audit provider, either independently or via a joint procurement process. A detailed report on this matter will be brought to a future meeting of the Audit Committee.

### **Fraud - Housing Benefit**

3.11. The team continues to receive a high volume of fraud referrals and, as with previous years, a high percentage of cases have to be screened out without investigation. Some of these are screened due to there being no evidence of fraud, i.e. the claimant has been accused of working and claiming but has already notified the council of work. However, some cases which may be fraudulent have to be screened due to the sheer volume. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. Some cases which are screened out are referred onto the Department for Work and Pensions. 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.

3.12. The team carried three vacancies during the first quarter of the year and this caused a drop in the number of cases completed. Over the past 18 months the team had a number of unsuccessful attempts to fill positions with both permanent and temporary staff. The team currently has two vacancies following the successful recruitment of one additional permanent member of staff. A further candidate had accepted an offer although withdrew this due to the restructuring proposals. The proposed new structure should help to address the high number of benefit fraud allegations which cannot currently be investigated.

3.13. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty and criminal prosecution. In recent years the Audit and Investigation team have prioritised high value fraud resulting in a higher proportion of prosecutions. This has resulted in fewer sanctions but higher value overpayments. Caseload data is shown in table 3 below:

<b>HB Fraud</b>	<b>20013/14 Quarter 1</b>	<b>20013/14 Quarter 2</b>	<b>2013/14 Year to date</b>	<b>20012/13</b>
Referrals	152	198	350	666
Closed	213	413	626	622
Passed to other agency	37	31	68	N/A
Screened Out	147	356	503	432
% screened	69%	86%	80%	69%
Investigated	29	26	56	190
Fraud Found	17	17	34	121
Hit Rate	58%	65%	62%	64%
Caution	0	0	0	0
Admin Penalty	8	4	12	34
Prosecution	8	7	15	28
<b>Total Sanctions</b>	<b>16</b>	<b>11</b>	<b>27</b>	<b>62</b>
Summons Only	0	0	0	4
Overpayment Only	1	6	7	43

**Table 3 – HB Fraud Q2 2013**

3.14. At the end Q2 the team had completed investigations into 56 cases, identifying fraud in 34 of these. Overpayments of £1,013,000 have been identified of which £680,000 relates to HB/CTB. There are negative subsidy implications arising from the identification of fraudulent and claimant error overpayments. The council normally receives 100% subsidy from the DWP for housing and council tax benefit payments. Where overpayments are identified as a result of fraud or claimant error, the subsidy is reduced to 40%. However, the council is allowed to retain the full amount of the overpayment where it can be recovered. Due to the difficulties in tracking overpayment recovery, which can occur over a number of years and



through different routes, it is not easy to identify the net losses arising from fraud cases.

3.15. At the Audit Committee meeting in June 2013, members requested comparator information on benefit fraud performance. The DWP collect fraud statistics on a quarterly basis from all councils and these are published on their website. The following statistics are available: Total value of HB overpayments outstanding at the start of the quarter; Total value of HB overpayments identified during the quarter; Total value of HB overpayments recovered during the quarter; Total value of HB overpayments written off during the quarter; Number of full time equivalent fraud investigators; Number of referrals; Number of cases subject to investigation closed; Number of cases subject to investigation closed with a DWP interest; Number of cautions offered and accepted; Number of administrative penalties offered and accepted; Number of administrative penalties offered and accepted with a DWP benefit interest; Number of cases accepted for prosecution; Number of cases accepted for prosecution with a DWP interest; Number of successful prosecutions; Number of successful prosecutions with a DWP interest.

3.16. Although this data can be used for some comparison purposes, there are a number of caveats. The number of referrals and closed investigations is also problematic as there are different interpretations of a referral, i.e. some councils include all of their data matching hits as referrals. This skews the data. In relation to the number of sanctions the DWP use a rounding protocol which rounds to the nearest 5. Hence, an authority which identifies 12 sanctions in the quarter will have this rounded down to 10. If that so happens for each quarter their reported sanctions will be 40 when in reality they should be 48. Members need to be mindful of those caveats when considering the data. A subset of the data for 2012/13 is shown below with Brent's actual, rather than rounded, figures shown:

	Average number of operational in year	Total Referrals	Number of cases subject to investigation closed*	Cautions	Prosecutions	Adpens	Total Sanctions
Barking and Dagenham	3.9	425	190	20	15	20	55
Barnet	3.5	330	255	15	20	55	90
Bexley	2.9	440	180	55	15	10	80

Brent	3.0	666	465	.	28	34	62
Bromley	5.5	470	480	10	25	35	70
Camden	4.6	865	340	40	10	25	75
City of London	1.1	35	20	-	5	-	5
Croydon	3.5	720	600	55	35	25	115
Ealing	5.8	370	355	50	25	45	120
Enfield	3.0	425	90	15	10	5	30
Greenwich	5.0	535	625	5	15	15	35
Hackney	5.0	490	225	10	20	20	50
Hammersmith and Fulham	2.1	95	185	.	10	5	15
Haringey	4.0	295	250	.	30	.	30
Harrow	2.1	625	95	5	10	20	35
Havering	3.8	460	375	15	25	20	60
Hillingdon	5.0	620	485	20	20	25	65
Hounslow	3.8	425	245	20	10	20	50
Islington	5.5	295	510	15	20	25	60
Kensington and Chelsea	3.5	500	500	45	15	25	85
Kingston upon Thames	3.0	270	245	10	20	-	30
Lambeth	2.6	525	85	10	10	15	35
Lewisham	4.0	305	445	60	15	10	85
Merton	4.5	275	140	45	15	10	70
Newham	5.8	900	825	50	30	50	130
Redbridge	5.5	2,840	2,130	15	30	10	55
Richmond upon Thames	2.5	285	260	10	5	10	25
Southwark	5.5	1,070	390	5	45	10	60
Sutton	3.5	590	505	35	20	65	120
Tower Hamlets	9.3	960	405	25	40	35	100
Waltham Forest	4.0	655	470	25	15	60	100
Wandsworth	3.8	2,630	410	15	25	25	65
Westminster	8.8	860	485	25	25	55	105

**Table 4 – Housing Benefit Fraud Data for London collated by DWP**

**(\*Includes cases which have been subject to screening)**

### Housing Tenancy Fraud

3.17. Tenancy fraud occurs due to the sub-letting of council properties, false declaration of circumstances on housing and homeless applications and, more recently, there have been cases of individuals over stating their family size in order to obtain larger properties. Since 2010/11 the government has provided additional funding to encourage councils to address sub-letting fraud and to work with housing associations to detect sub-letting within their stock. The funding has enabled the council to employ two additional staff in this area and increase property recoveries. The Audit Commission estimate that the value of each recovered tenancy is £18,000. Caseload information is shown in table 5 below.

Housing Fraud	2013/14 Quarter 1	2013/14 Quarter 2	2013/14 Year to date	2012/13
Referrals	101	32	133	206
Closed	79	73	157	227
Screened Out	6	6	12	5
Investigated	73	67	145	222
Fraud Found	12	22	34	59
Recovered Property	10	21	31	57
RTB Stop	0		0	0
Application refused	0		0	1
Property Size reduced	2	1	3	1

**Table 5 – Housing Fraud Q2 2013/14**

### Other External Fraud

3.18. The most prevalent area of activity in this category relates to Blue Badge forgery and misuse. Following recent successful Blue Badge proactive exercises there were five prosecutions during the quarter.

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	19	27	46	65
Closed	18	21	39	40
Screened Out	1	0	1	2
Investigated	17	21	38	31

Fraud / Irregularity	10	16	26	12
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**Table 6 – Other External Fraud Q2 2013/14**

**Internal Fraud**

3.19. 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. Since the beginning of the financial year, four staff have been dismissed for the following reasons: Working and claiming benefit; working whilst off sick; false overtime claims (school) and a conflict of interest. Activity for the first two quarters is shown below:

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	12	8	20	47
Closed	8	5	13	42
Screened Out	0	0	0	1
Investigated	8	5	13	41
Fraud / Irregularity	2	3	5	18
Dismiss	2	2	4	5
Resign	0	0	0	10
Warning	0	1	1	2

**Table 7 – Internal Fraud Q2 2013**

**Proceeds of Crime Act cases**

3.20. The Audit and Investigation team currently utilise 0.5 of a permanent post to undertake the functions of a financial investigator (FI) under the Proceeds of Crime Act 2002. This enables the council to utilise the powers available under the act to obtain confiscation orders following successful convictions. This can be an effective way of recovering fraudulently obtained funds. The Act also permits recovery of funds in excess of the amount stolen, these have to be generated by the proceeds of the crime and the onus is on the defendant to prove that all income and capital generated is from legitimate means. For example, a defendant who was able to purchase property arising from a benefit fraud may be required to pay the Treasury,

any amount of profit associated with the purchase. Under a scheme known as “Incentivisation”, the council can receive up to 37.5% of the funds confiscated over and above the value of the original fraud.

3.21. Confiscation proceedings are pursued where convicted individuals have sufficient assets to meet an award and FIs have specific powers under which assets can be identified and, potentially, seized or restrained. A&I have utilised these powers in benefit and direct payment fraud cases and have also conducted work on behalf of the planning service in respect of enforcement prosecutions. Orders have a fixed time period, usually a minimum of six months, in which they have to be satisfied. Failure to pay confiscation orders results in a default sentence based upon the amount of award. Sentences commence on completion of the conviction sentence. Caseload information is shown in table 8 below:

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	2	2	4	2
Closed	2	2	2	15
Confiscation Orders	1	1	2	8
NFA	1	1	2	7
Value of Orders Made	£14,600	£235,000	£249,600	£726,000
Compensation	£14,600	0	£14,600	£83,000
LB Brent Incentivisation Income (if paid)	0	£88,100	£88,100	£241,100

**Table 8 – Proceeds of Crime Act Cases**

### **Proactive Fraud Drives**

3.22. In addition to a reactive response to individual referrals, the team also conducts proactive anti-fraud initiatives. Since 1<sup>st</sup> April 2013 these have included: Two on street Blue Badge enforcement operations with the police, resulting in 9 badge seizures; client index to single person discount sample of 100 cases checked resulting in identification of £1,800 over claim; NNDR charitable relief checks resulting in identification of overclaims of £30,000.

## **General Fraud Issues**

- 3.23. The investigation team is currently split across three specialisms, housing benefit fraud, tenancy fraud and internal/other fraud. The team was subject to a 30 day consultation period on restructure proposals which ended on 6<sup>th</sup> December 2013. These proposals will be finalised in mid December. Members will be provided with a verbal update at the committee meeting.
- 3.24. The DWP's long term proposals for the Single Fraud Investigation Service (SFIS) are beginning to take shape. In the Autumn Statement on 5<sup>th</sup> December 2013 the government confirmed that it will implement a single fraud investigation service within the DWP to investigate all welfare benefits. This will mean that the council will no longer have responsibility for housing benefit fraud. The exact date of transfer of responsibility is not yet known although the DWP have stated this will occur sometime between October 2014 and March 2016.
- 3.25. The Audit Commission have recently released the results of their annual survey of detected fraud losses in local government, Protecting the Public Purse 2013. This is available here: <http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>
- The main headlines are that local authorities detected 107,000 fraud cases in 2012/13 with a value of £178m. Of this £120m related to housing or council tax benefit. Whilst there is a small decline nationally in the value and volume, London has experienced a 36% increase in detected fraud.
  - In addition, councils recovered 2,640 council homes which had been sub-let with an estimated value of £47.5m. London accounts for 58% of the recovered properties.
  - There has been an 82% increase in the number of direct payment frauds detected with 200 cases in 2012/13 with a value of £4m.

## **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 and Corporate Services – Draft Internal Audit Plan 2013/14, Audit Committee 30<sup>th</sup> March 2013
2. Report from the Deputy Director of Finance and Corporate Services – Internal Audit Progress Report, Audit Committee 25<sup>th</sup> September 2013

## **8. Contact Officer Details**

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

**Conrad Hall**  
**Chief Finance Officer**

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**Internal Audit  
2<sup>nd</sup> Progress Report 2013/14  
London Borough of Brent  
January 2014**

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## Executive Summary

<b>Introduction</b>	This report sets out a summary of the work completed against the 2013/14 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.
<b>Summary of Work Undertaken</b>	<p>Eleven final reports have been issued since the last committee meeting relating to the following areas, with further details of these provided in the remainder of this report:</p> <ul style="list-style-type: none"><li>• Framework I Phase 1 Purchasing</li><li>• Framework I Phase 2 Payments</li><li>• Carers Hub</li><li>• Soft Box</li><li>• Migration of Appointeeship and Deputyship</li><li>• Our Lady of Lourdes Primary School</li><li>• Our Lady of Grace Junior School</li><li>• Mount Stewart Junior</li><li>• Woodfield Primary</li><li>• View 360</li><li>• Housing Rents (BHP)</li></ul>




### 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 
<b>2011/12</b>	-	42% (22)	50% (26)	8% (4)
<b>2012/13</b>	4% (2)	61% (33)	31% (17)	4% (2)
<b>2013/14</b>	(0)	50% (7)	50% (7)	(0)

#### Direction of Travel

	Improved 	Unchanged 	Deteriorated 
<b>2011/12</b>	5	4	2
<b>2012/13</b>	3	4	3
<b>2013/14</b>	2	2	1

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

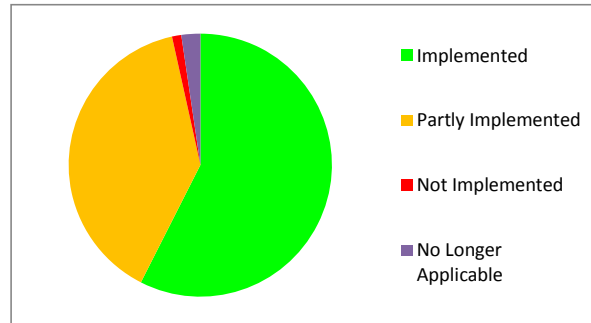
### Follow-Up of Previously Raised Recommendations

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, 97% 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, 100% had either been fully or

partly implemented.


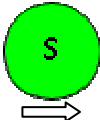


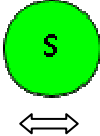
Implementation of Recommendations



## 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
<b>General and Computer Audits</b>	
View 360	
<b>SCHOOLS</b>	
Our Lady of Lourdes Primary School	
Our Lady of Grace Junior School	
Mount Stewart Infant	
<b>BHP</b>	
Housing Rents	

## 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 are reported separately to the BHP Audit & Finance Sub-Committee.

### Framework-I Phase 1 Purchasing (Fostering and Residential Placements for Children)

London Borough of Brent manages a budget of over £17m annually for delivering Children Social Care services. Children Social Care (CSC) currently use Framework-i to record Social Care Cases with un-costed care packages and maintain different systems/excel sheets to record the cost of care packages and to process payments.

A programme was launched to migrate the costing information of the CSC services onto Framework-i (FWi) Financials and to re-design the financial administration process to bring in line with and to facilitate the functionality of FWi Financials. The programme covered the following service streams:

- Payments for Fostering (SoftBox)
- Payments for Residential Placements (CRT and Excel Download file)
- Payments for Post & Other LAC (CRT and SoftBox)

The focus of this audit work was to assess the systems of controls designed for the purchasing process on Framework-I.

Overall, the key issues identified relate to the segregation of duties currently built into the system; the process by which delegated financial authority is given to financial authorisers on the system; user access rights; the ability to disaggregate the costs of care packages; and the possibility of continuous payments for superseded care provisions due to an end date being a non-mandatory field.

The Direction of Travel provides a comparison with any prior audit visit. In this case a prior audit has not been undertaken and therefore no comparison has been given.

Five priority 1, one priority 2 and two priority 3 recommendations were raised



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>Full segregation of duties should be system enforced within the Framework-I Financial system.</p> <p>If this cannot be enforced then management should put controls in place in order to review instances where work flowed tasks have been completed by the same officer and taking action where this is deemed to be inappropriate.</p>	<p>Agreed.</p> <p>Historically, CRT (Commissioning resource team) duty manager also worked on the duty desk and dealt with child placement finding and matching. However, in light of audit recommendations and discussion with the CRT Head of Services. the following solution was investigated and tested by the Project Manager and the Framework-i Application Support Team:</p> <ul style="list-style-type: none"> <li>- Remove “work with care package provision” function and give “work with care package” function to worker roles who are set to authorise care packages on Framework-i.</li> </ul> <p>After due consideration and agreement this is now implemented on Framework-i Live system. Now, Care Package financial authorisers will not be able to create a new care package while having system access rights to authorise the care package, this will enable a clear segregation of duties for all financial authorisers on Framework-i.</p> <p>Application Support Team/ Completed</p>
<p>All officers set as financial authorisers within Framework-i should have their delegated responsibility authorised in line with the process for setting up new approvers on the Oracle financial system.</p>	<p>Agreed.</p> <p>Framework-i Financial authorisation for Level 1 was discussed and agreed by the previous Framework-i Finance Project Board. This recommendation was discussed in detail with the Head of Services Commissioning, and it was agreed that only those managers who are setup on Oracle Financials as authorisers will be set up on the Framework-i Financial System. After the Head of Service Commissioning’s decision to remove CRT Duty Team manager as Financial Authoriser, a request to remove CRT Duty Manager access to Authorise Care Package was sent to Framework-i Application Support Team. This request is now actioned, and only those workers who are setup on Framework-i as Financial Authorisers who are also setup as Approver on Oracle Financials.</p> <p>Head of Childrens Commissioning &amp; Framework-i Application Support Team/ Completed</p>



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>The cost of the whole care package episode should be approved in line with the scheme of delegated authority as opposed to individual service group elements within the care package.</p>	<p>Agreed.</p> <p>This is a system (Framework-i) functionality issue with impact on the overall system usage. Framework-i Financial authorisations rules work at two levels i.e. service group and element type level. Across the London Borough of Brent, financial authorisations are setup at Service Group level. To minimise the impact Children Services already have the smallest possible service group.</p> <p>To ensure that care packages are authorised as a care package level and not individual service group levels, a Corelogic Support request (JIRA 37794) has been raised to identify a solution so that the financial authorisation is done for the whole of the care package instead of at service group level.</p> <p>Application Support Team Leader/ 30<sup>th</sup> September 2013</p>
<p>The user access rights of staff on Framework-i should be reviewed to only allow officers to be set as having a 'leading role' who require it.</p>	<p>Agreed.</p> <p>Historically a majority of worker roles in Framework-i are setup with a "leading role". The reason behind setting up worker roles as a leading role is that, most teams are setup with "virtual duty teams" and the only way Framework-i allows a worker to access the team folder is to have the worker role setup as a leading worker role.</p> <p>A worker without a leading worker role can access any record on the system unless it's restricted. A leading worker role will only allow access to team folders, and CRT workers have virtual sub teams setup which every CRT duty worker needs to access to carry out day to day job. Having the leading worker role will not give them additional access right to see a record which they can't see otherwise, however having this access right along with "Can Act for" access right does allow users to carry out financial authorisations which they cannot do otherwise.</p> <p>Within CRT some of the workers were setup to act for other workers. All of "Can Act For" access rights within CRT have been reviewed and removed for everyone with Financial Authorisation access rights. In future, if CRT need to grant "Can Act for" access rights this needs to go through formal ITU support process.</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>Management should put in place controls in order to identify multiple payments that have been made as a result of end dates not being added for existing care packages where additions or amendments are made.</p> <p>One method would be to create a report to identify all purchase orders open for each placement within a certain time period to determine whether the payments made were required.</p> <p>This report should be reviewed on a regular basis by a dedicated officer to determine the appropriateness of the payments made.</p> <p><b>N.B.</b></p> <p>Whilst acknowledging that the project has not yet progressed onto the payment phase, a recommendation has been raised so that the point can be taken into consideration in the phase 2 of the project.</p>	<p>Application Support Team &amp; Project Manager/ Completed</p> <p>Agreed.</p> <p>Currently Children services are not using Framework-i Finance for payments, however a process needs to be in place to minimise the risk of over payments. To ensure this, a process has been discussed and agreed between CRT and the Children Finance Team. That is, CRT Contracts Officers will run B13b (Framework-i system report) report on a regular basis (monthly), after checking and verification, it will be submitted and signed of by the Head of Services CRT and the Senior Financial Analyst.</p> <p>The above process has been agreed by the Head of Services Commissioning and the Senior Finance Analyst, however this will be in practice once Framework-i Finance has gone live.</p> <p>CRT &amp; Children Finance/ October 2013</p>

## Carers Services Hub

The Carers Services Hub has been set up to be the first point of contact for all unpaid carers, of all ages, seeking information and advice about the support available in the London Borough of Brent. The Service is intended to provide a pathway for carers to access the support they need and which is available to them.

The aim of the Carers Services Hub is to improve the quality of life for carers in the London Borough of Brent and enhance their capacity for independent living through the provision of a range of person centred and co-ordinated services. The provision includes dissemination information using a variety of methods, venues and facilities, as well as being a reference point for all the voluntary sector organisations providing support services to carers of all service user groups in borough.

The Carers Services Hub is delivered by the Brent Carers Centre, a voluntary organisation under a contractual agreement with the Council. The total value of the contract with Brent Carers Services Hub is approximately £390k for 2013/14 and approximately £290k of this is for the delivery of seven key priorities defined by the Council.

The scope of this audit concentrated on the controls in place within the Carers Hub with regards to their ability to provide an effective service to carers within Brent. It was not within the remit of this audit to assess the extent to which this arrangement offers value for money to the Authority.

Overall, we identified major control weaknesses including performance management, data management, and marketing. It is acknowledged that some of the issues are historic and the Hub has recently gone through various changes, including the restructure, appointment of a new Chief Executive, and installation of the new referrals management system. However, the issues identified as a result of our work require immediate action by the Hub and its Board in order to ensure that reasonable assurance is provided to the Council that the funding provided to the Hub is utilised in an efficient and effective manner and in line with the defined service provisions.

The Direction of Travel provides a comparison with any prior audit visit. As this audit has not been undertaken before, no direction of travel has been given.

Five priority 1, two priority 2, and one priority 3 recommendations were raised.



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>An action plan should be developed to address any service specifications that have not been fully met.</p> <p>The action plan should include a clear indication of the responsibility, timeframe,</p>	<p>The Council will liaise with the Brent Carers Centre to develop an action plan to address the recommendations by the end of January</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>and allocation of resource.</p> <p>With regards to the following services, the Hub should consult with the Council to agree the best way forward:</p> <ul style="list-style-type: none"> <li>• Responding in accordance with the plan in the case of any emergency; and</li> <li>• Providing direct support during an emergency.</li> </ul>	<p>2014.</p> <p>Integrated Commissioning Team 31st January 2014</p>
<p>The Hub should develop a robust performance management process.</p> <p>As a minimum, the following points should be addressed when developing the performance management process:</p> <ul style="list-style-type: none"> <li>• A performance measure is determined and mapped against each service specification and the required outcome;</li> <li>• The baseline for monitoring and target are defined;</li> <li>• The source of information for each measure is defined; and</li> <li>• Implement a robust system for recording and analysing the performance data to facilitate effective monitoring.</li> </ul>	<p>As above.</p>
<p>The Board should monitor the performance of the Hub on a regular basis. The information needs of the Board should be agreed and performance report should be produced accordingly.</p> <p>The performance information to be reported to the Board should include but not limited to:</p> <ul style="list-style-type: none"> <li>• The Key Performance Indicators (including baseline, targets, and actual performance in the period);</li> <li>• The progress against the service specification; and</li> <li>• An action plan.</li> </ul>	<p>As above.</p>
<p>The carers' data held on the Hub's system should be cleansed regularly and kept up to date.</p> <p>The Board should determine the extent of assurance they require in respect of the</p>	<p>As above.</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
data integrity and agree the level of checks and validations to be performed by the Hub.	
<p>Visible signs should be displayed within or surrounding the building of Wembley Centre for Health and Care Service where the Hub is located.</p> <p>The Hub should review the leaflets, websites, and any other marketing materials and assess the effectiveness of these. As part of the review, the Hub should identify key services and determine where and how these should be promoted to maximise the take up of the services provided by the Hub.</p>	As above.

## Soft Box

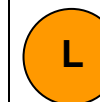
Appointeeship and Deputyship accounts have previously been administered using three systems Quicken, ResFunds, and Abacus. Over the summer 2013, the Council has carried out a migration project to launch a single system, Soft Box. The focus of our work was to assess the controls relating to the implementation of Softbox including client accounts set up and use of Softbox functionality including exceptions reports.

Our assurance opinion is based on the controls that were in place or planned to be in place, which we were able to verify at the time of the audit. At the time of our work, there are a number of outstanding actions that have yet to be addressed to fully implement Softbox and this has been reflected in the assurance opinion.

Overall, the key issues identified relate to outstanding actions relating to the migration of information from legacy systems to Softbox, follow up of exceptions found on the Softbox exception reports, and approval and review of direct debits.

The Direction of Travel provides a comparison with any prior audit visit. In this case, a prior audit has not been undertaken and therefore no comparison has been given.

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



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>Actions should be taken to clear all outstanding items waiting to be addressed as a matter of urgency.</p> <p>A summary of key outstanding items are as shown below:</p> <ol style="list-style-type: none"> <li>1. The transfer of all outstanding balances from the old bank account to the new one;</li> <li>2. The transfer of balances onto the Softbox system including the balances taken from Quiken and the transactions on the legacy client accounts which appeared after the final balance was transferred;</li> <li>3. The creation of standing orders and direct debits onto the Softbox System;</li> <li>4. The loading of all DEF payments made onto Softbox;</li> </ol>	<p>Agreed.</p> <ol style="list-style-type: none"> <li>1) 20 client's benefits is still paid into the old bank account. – CAT to follow up with the DWP to ensure that it is paid into the new appointee bank account</li> <li>2) Actioned</li> <li>3) Actioned</li> <li>4) Actioned</li> <li>5) Agreed with the recommendation</li> <li>6) Agreed with the recommendation – Client Affairs Team (CAT) to investigate and action all exceptions</li> </ol>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>5. The investigating and actioning of all exceptions identified on the monthly exceptions report, including the direct debits identified as having been created and processed through the bank account in the July 2013 Bankline report to determine who they relate to and to confirm the validity of them; and</p> <p>6. The investigating and actioning of all exceptions identified on the benefits and pensions not received against the profiled income due on Softbox.</p>	<p>on a weekly basis.</p> <p>Raksha Pindoria –Client Affairs Team Manager Ajay Bhatt – Team Leader 31 January 2014</p>
<p>An approval form should be completed for each direct debit creation/amendments request. The form should include as minimum:</p> <ul style="list-style-type: none"> <li>• Client name;</li> <li>• Reason for direct debit;</li> <li>• Customer reference number;</li> <li>• Copy of original invoice to confirm the customer reference number; and</li> <li>• Signed approval for direct debit by delegated officer.</li> </ul> <p>These forms should be retained.</p> <p>A report from Softbox should be run on a monthly basis to identify any direct debits that have been created or amended and reconciled to the approval to identify any direct debits that have been created/amended without prior approval.</p>	<p>Agreed.</p> <p>Paragraph 1: It will be impractical to complete an approval form for each direct debit. It has been agreed that CAT will complete one direct debit approval form and will attach a template with the above bullet points for authorisation.</p> <p>Paragraph 2: Agree with the recommendation.</p> <p>Raksha Pindoria –Client Affairs Team Manager Ajay Bhatt – Team Leader 31 January 2014</p>
<p>All invoices or any other forms of payment instructions that relate to Direct Expenditure Form payments should be retained on Framework-I.</p>	<p>Agreed.</p> <p>Due to the fact that we pay multiple invoices in one occasion it will impractical to upload each invoice in fwi. However, it has been agreed by CAT to keep all invoices as a hard copy in a folder.</p> <p>Raksha Pindoria –Client Affairs Team Manager Ajay Bhatt – Team Leader 31 January 2014</p>

## LIMITED ASSURANCE REPORTS – Computer Audit

### Migration of Appointeeship and Deputyship Data

The Council is responsible for the management of approximately 192 client Appointeeship accounts and 53 client Deputyship accounts. The Appointeeship and Deputyship bank accounts were previously managed via three separate application systems - ResFunds and Abacus for Appointeeships; and Quicken for Deputyships.

The Council has now implemented a single centralised account management business application, SoftBox, to manage the Appointeeship and Deputyship bank accounts after migrating data from the ResFunds, Abacus and Quicken systems.

The migration of records from the legacy applications to SoftBox was still being completed during the audit as while no issues were encountered with the initial transfer of a pilot batch of 15 accounts the Department for Work and Pensions are inconsistently responding to the Council's requests to transfer payments to the new bank account details. E.g. In September 2013 45 (23.4%) of the 192 appointee clients still need to be transferred to Softbox due to Department for Work and Pensions (DWP) delays. As a result, some legacy application record systems are still being maintained until the migration of the client details to SoftBox is complete.

The migration process was essentially performed by an external agency resource who was pro- actively engaged by the Migration of Abacus, Refunds and Quicken Project Manager to perform an independent reconciliation of the record migrations. The reconciliation procedure, which was never formally defined, involved checking the following record datasets:

- Appointeeship: Income transactions from September/October/November 2012; and
- Deputyship: Income transactions from April/May/June 2013.

The focus of our work was to assess the management control framework established and applied to the migration of 245 bank account records from the legacy systems on to the new SoftBox system. It should be noted that this work focused on the data migration on to Soft Box and the general audit of Soft Box focused on the controls relating to the set up on the Soft Box and implementation of Soft Box functions.

We were able to confirm that a Project Initiation Document (PID) was established and project records indicate a very high level of data accuracy exists in the preSoftBox legacy systems, as only one £80.34 Appointeeship/ Deputyship Abacus to bank record reconciliation discrepancy was found by the independent reconciliation checks pro-actively applied as intended to a sample of all the bank transactions records in a three month period.





However the PID established for the project did not comply with the Corporate Project Management Standards or Templates and no project risk register was established as required by the corporate risk management guidance. As a result, although the service carried out the transfers in stages to try to mitigate risks such as delays in the transfer of benefits to the new bank account by the DWP, the project risks were not formally documented or assigned to risk owners and mitigation managers.

In addition while the independent reconciliation checks were applied as management intended for two of the three data sets they were inconsistently applied to the third where only income records were reconciled and therefore weaknesses in the system of internal control are such as to put the client's objectives at risk and that the level of non-compliance puts the client's objectives at risk. Overall, the key areas for improvement relate to:

1. Risk Management and Governance.
2. Documenting and quantifying the migration reconciliation procedure methodology and status.
3. Documenting and monitoring the achievement status of migration account balance activities.

The Direction of Travel provides a comparison with any prior audit visit. In this case, a prior audit has not been undertaken and therefore no comparison has been given.

**One priority 1 and two priority 2 recommendations were raised and the recommendations have since been implemented.**

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>The Project Manager should establish:</p> <ul style="list-style-type: none"> <li>• an expected implementation task and time plan to monitor the migration of the remaining records; and</li> <li>• an appropriate Risks Actions Issues and Decisions (RAID) log to assist the transparency of risk ownership and governance in the business as usual system.</li> <li>• Conduct an end of project report in compliance with the Council's Project Management procedures</li> </ul>	<p>Agreed – A risk log will be established in September together with an outstanding task plan that will be monitored for achievement.</p> <p>Client Affairs Team Leader/ Already Implemented</p>

**LIMITED/NIL ASSURANCE REPORTS – School**

**Woodfield School**

Nine priority 1; nineteen priority 2 and one priority 3 recommendations were raised as a result of this audit. All of our recommendations were agreed for implementation by the School.



## NON-ASSURANCE WORK

### Framework I Phase 2 Payments

As agreed with management, this work was a pre-implementation/roll out work and our focus was on the adequacy of controls from the design perspective. This work followed on from our earlier work on the Framework-i purchasing process (Phase 1) for children's placements.

Our work was based on the latest "to be" process map provided by the Project Manager and discussions held with officers involved in designing the new process.

It should be noted that the focus of this work was on the system controls over the payments process and we did not assess the process or the qualitative aspects of the decisions being made in respect of social care services provided.

We have not provided an assurance opinion on the adequacy of the payment process at this stage as the controls were still in the design phase and effectiveness of the controls could not be verified at the time of the audit.

Based on the assessment of risks and planned controls, we have raised the following action points which were agreed with management.

- Where reviews are undertaken on payment cycles that are not work flowed tasks on Framework-i, evidence of these checks should be retained. This includes the independent spot check to be undertaken by the Senior Finance Analyst. Where reviews have identified discrepancies, a log should be kept for follow-up purposes to ensure that discrepancies are fully actioned at the time they are found or, where further investigation is needed, that they are not forgotten about.
- An anti-fraud statement should be included in the remittance advice. This should include but not limited to the consequences for providing false information.
- Placement providers will be created on Framework-i and a unique supplier reference number will be assigned automatically. In order to facilitate a mapping of the Framework-i payment run and suppliers on Oracle, Framework-i supplier reference number will be used as a supplier name on Oracle. Migration of the Framework-i supplier's reference numbers and their payment details are currently in progress. It should be ensured that the migration is completed before the go live and once completed, migrated data should be checked against Framework-i.
- Where new suppliers are required to be added onto both systems, a formal process should be put in place to ensure that they have been added correctly, and independently checked for completeness, accuracy, and validity by a separate officer.

	<ul style="list-style-type: none"> <li>• Management should be aware of the changes to existing Oracle structures following the introduction of the One Oracle project, which is now scheduled to be implemented in December 2013. It should be ensured that the financial approval hierarchy set up on Framework-i mirror the new approval structure on One Oracle given that this is basis on which financial authorisation has been delegated to officers on Framework-i.</li> </ul>
<b>Troubled Families Grant Claim Certification</b>	<p>Certification of 4 Grant Claims as follows:</p> <ul style="list-style-type: none"> <li>• 2 Claims for Troubled Families</li> <li>• 2 Payment by Results Claim</li> </ul> <p>This is a grant which the Head of the Audit &amp; Investigations Team is required to certify the grant claims. This funding is for the DCLG's Troubled Families programme which is aimed at reducing the cost of problem families. The government is providing funding to cover up to 40% of the cost of interventions for these families. This will be paid primarily on a payment by results basis. The DCLG will make available up to £4,000 for each troubled family that is eligible for the payment-by-results scheme. A proportion of this is paid upfront as an "attachment fee" for the number of families that the local authority starts working with, and the rest will be paid following positive outcomes with these families.</p>

## 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	
Our Lady of Lourdes	8	1	0	9	4	1	1	0	0	18	5	1	0	
Mitchell Brook Primary	8	7	0	6	9	0	0	0	0	14	16	0	2	
Northwest London Jewish	9	9	0	9	4	0	0	0	0	18	13	0	0	
	<b>25</b>	<b>17</b>	<b>0</b>	<b>24</b>	<b>17</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>34</b>	<b>1</b>	<b>2</b>	

## 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:

	<b>Full</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	<b>Substantial</b>	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.
	<b>Limited</b>	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.
	<b>None</b>	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:

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

## Appendix B – Audit Team and Contact Details

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