



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Thursday 26 June 2014 at 7.00 pm

PRESENT: Mr Mr Ewart (Chair), Councillor Khan (Vice-Chair) and Councillors A Choudry, Davidson and McLeish

Also present: Councillors S Choudhary, Filson and Pavey

Apologies for absence were received from: Councillor Van Kalwala

1. **Election of Vice Chair**

RESOLVED:

that Councillor Khan be elected as Vice Chair of the Committee for the municipal year 2014-15.

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

None declared at this meeting.

3. **Deputations**

None.

4. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 19 March 2014 be approved as an accurate record of the meeting.

5. **Matters arising**

None.

6. **KPMG - External audit progress report**

Members received a progress report from the Council's external auditor, KPMG which set out the summary of work performed by KPMG for the financial year 2013-14 and a summary of proposed work over the next quarter. Phil Johnstone, Director of KPMG informed members that following the detailed annual plan highlighting the key risks to the audit which KPMG presented to the Committee at its meeting in March, an interim audit visit involving audit testing on a number of

controls, including those around journals and bank reconciliations was carried out in April 2014. He continued that in addition to seeking the views of the Chair of the Audit Committee on controls in place and any fraud or unlawful transactions, KPMG reviewed the Council's in year financial position and the 2014-15 budget in connection with the value for money conclusion. He concluded that from the interim work carried out, there was nothing that KPMG needed to raise with the Audit Committee.

In outlining the work over the next quarter, Phil Johnstone stated that KPMG would focus on the following: detailed planning and audit of the Council's 2013/14 financial statements including the Annual Governance Statement and Pension Fund; review of arrangements in place for securing economy, efficiency and effectiveness in the use of resources which would include reviewing the Council's medium term financial plan and in year financial performance; preparing the ISA 260 Report to the Audit Committee setting out the key findings of the audit; and starting the detailed audit work on housing benefit claim.

Members heard that the proposed audit fee would remain at £263,520 for the Council's audit, £21,000 for the Pension Fund and £29,998 (a reduction from £36,000) as a result of changes made the Audit Commission in respect of the Teachers' Pension Return and Council Tax benefit.

In response to a member's question, the Chief Finance Officer responded that under The Audit Commission Act 1998, local electors had rights to inspect or object to the Council's accounts as well as to ask questions of the auditor about the accounts.

RESOLVED:

- (i) that the external audit progress report be noted;
- (ii) that the Chief Finance Officer be requested to circulate audit report for 2013 and ISA 260 to all members of the Committee.

7. Draft statement of accounts 2013-14

Conrad Hall, Chief Finance Officer of the Council informed the Committee that following the completion of the audit of the accounts, the Audit Committee will receive a report on the audit from KPMG and be asked to approve the accounts for publication. He continued that although the presentation of the draft accounts to the Committee was not part of the formal decision making process, it enabled members to gain an understanding of the financial statements and raise any issues at an early stage of the process. The statement of accounts attached in a prescribed format as an appendix to the Chief Finance Officer's report had been reviewed to ensure that the information was presented as concisely as possible.

Mick Bowden, Operational Director of Finance stated that the Council set its budget for 2013/14 on 25 February 2013 at £284.3m which included £7.3m of savings. He added that since 2010, the Council had made overall savings in excess of £70m which had been delivered through the One Council Programme and the Council's approach to improving services and efficiency. The Operational Director added that

due to difficult financial outlook, the Council would need to continue to scrutinise how it provided services in the future so as to manage the challenges it faced in a planned and structured manner. Based on current projections it was estimated that the Council would need to identify saving of £53m by 2016/17 with a similar level of savings in the following two years.

Members heard that despite the current challenging environment all departments managed to maintain spending within their respective budgets, enabling the Council to achieve its target level of non-earmarked reserves (or general fund balances) at £12m. It was noted that the Pension Fund deficit was a long term liability which would be eliminated over the next 21 years through a combination of investment returns and additional payments by Brent Council in accordance with the triennial actuarial valuation.

The Chief Finance Officer then responded to members' questions about salaries for senior officers, compensation payments and redundancy costs and the level of reserves. He explained that the reserves set aside by the Council to meet redundancy costs were not spent. He continued that in his view the Council's level of reserves was prudent and was constantly being scrutinised. He undertook to bring to members' attention any concerns on the level of reserves. In bringing the discussion to a close, the Chair asked that a copy of pay scales be sent to all members of the Committee.

RESOLVED:

that the draft statement of accounts 2013/14 be noted.

8. Treasury Management outturn 2013-2014

Members considered a report that updated on Treasury Management activity and confirmed the Council's compliance with its Prudential Indicators for 2013/14. Mick Bowden, Operational Director of Finance explained that the successful identification, monitoring and control of risk were central to the Council's treasury management strategy due to its long term borrowing to support investment in its infrastructure as well as to invest in balances held for short periods.

He drew members' attention to the table in the report that summarised the Council's investment activity for 2013/14 from which it was noted that security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement. The Operational Director continued that the approach taken to minimise net interest costs enabled the Council to reduce its capital financing requirement by £4.6m and provided ongoing annual contribution towards the savings needed in the Council's medium term financial strategy.

RESOLVED:

that the 2013/14 Treasury Management outturn report be noted.

9. Internal audit final progress report

The Committee considered a report that summarised the work of Internal Audit and Investigation Team and provided an update on progress since the previous report to this Committee on 19 March 2014. In outlining the key points, Simon Lane, Head of Audit and Investigations stated that 81 draft (both Mazars and in-house output) against a planned total of 83 individual projects, (representing 98% of the planned output) and 59 final reports (representing 71% of total projects), were issued. He continued that out of the final reports issued to date for which assurance opinions were relevant there had been 1 full; 31 substantial and 19 limited assurance opinions. He drew members' attention to the summary report setting out the completed audit work attached as appendix 1 to the report and progress achieved on various investigations by the team to date.

In respect of housing benefit fraud, Members heard that the team completed full investigations into 109 cases and identified fraud in 67 of them resulting in 26 individual prosecutions. In addition, 20 cases had administrative penalty (of up to 30% of the value of the overpayment in addition to the overpayment) applied. The team identified housing benefit (HB) and Council tax benefit overpayments in excess of £1.1m which were being recovered and 21 additional cases where no sanction was applied. He continued that there was an overall reduction in cases investigated (40%) due to a number of factors including a reduction in staff dealing with HB fraud, more complex enquiries and fewer multiple claim frauds. The team also completed 222 investigations into housing tenancy fraud and recovered 46 properties, primarily as a result of identifying unlawful sub-letting. On blue badge fraud, 30 cases were investigated and identified 26 cases of fraud/irregularity which resulted in 10 prosecutions.

Simon Lane updated the Committee that 44 cases of internal fraud involving staff were investigated which resulted in 10 dismissals. Other external fraud relating to a case involving direct payments across two councils was successfully prosecuted and was set for asset recovery, however the death of the fraudster whilst serving his sentence meant that recovery was no longer deemed viable.

Aktar Choudhury, Operational Director of Planning and Regeneration attended the meeting to update members on how his department progressed the recommendations made in the audit of Section 106 legal agreements (s106). He started by explaining that s106 was a legal agreement between local authorities and developers, which were usually linked to planning permissions. They were also sometimes known as planning gain, planning benefits, community benefits or planning obligations and were used when there was a requirement to mitigate the impact of a development and the impact itself. Where they were required, developers would normally be expected to complete any s106 agreement before permission can be issued. The Operational Director of Planning and Regeneration continued that the introduction of the Planning Act 2008 and the Community Infrastructure Levy (CIL) Regulations 2010, as amended, would result in significant changes to the way that developments contributed towards the provision of infrastructure required to support sustainable growth across the borough.

Instead, in the future, the Council would seek to secure contributions towards infrastructure through the imposition of a CIL. Despite the changes to infrastructure funding, s106 agreements would continue to provide a valuable means of securing other site specific mitigation required in order to make developments acceptable in planning terms.

In respect of the audit, the Operational Director stated that the key issues identified relate to policies and procedures for the monitoring and enforcement of obligations and enforcement activity to chase up outstanding obligations. At the time of the fieldwork, there were 20 cases (totalling £2,612,550, without RPI) where reminder letters had not been sent out even though the income was not received after 30 days. Members noted that since the issue was raised, the Monitoring and Compliance Officer had taken steps to address the overdue contributions and as at 3rd April 2014, the total balance of payments not received after the 30 day deadline had reduced to £504,850 (without RPI). He assured the Committee that the department would take forward the recommendations set out in the report.

In welcoming the report, the Committee asked that a breakdown of the Council's receipts for Section 106 legal agreements be made and circulated to all members.

RESOLVED

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

10. **Internal audit annual report 2013-14**

The Committee received a report from the Head of Internal Audit which presented a summary of the audit work undertaken during the year and set out his opinion on the overall adequacy and effectiveness of the Council's internal controls. Simon Lane, Head of Audit and Investigations stated that in his opinion, the controls in place in those areas reviewed were adequate and effective with the exception of those areas in which limited assurance reports had been issued (as set out in his report). He added that areas where weaknesses had been identified within internal audit reports were being addressed by management and followed up by Internal Audit.

In relation to risk management Simon Lane continued that although there were some weaknesses in the process, the council's significant risks had been recognised. Members were informed that for each audit where controls had been analysed, an assurance statement had been issued however, there had been deterioration in the balance between limited and substantial assurance across the council and BHP. The primary deterioration was in non-key financial systems across the council with IT systems, schools and BHP generally showing higher levels of assurance.

Members welcomed the report and requested the Head of Audit and Investigations to circulate the audit plan to all members of the Committee.

RESOLVED:

that the internal audit annual report be noted.

11. Annual Governance Statement (AGS) 2013-14

The Committee considered a report that set out the Annual Governance Statement (AGS) for 2013/14 as required by the Accounts and Audit Regulations 2011. The Council was required to produce the AGS as part of its published accounts which must be signed by the Chief Executive and Leader of the Council.

Conrad Hall, Chief Finance Officer drew members' attention to the significant governance issues which had been identified together with a summary of the actions taken to date, or being proposed to be taken to address them. The first governance issue was in respect of property management. The Chief Finance Officer clarified that an issue had arisen concerning the exercise of contractual rights within commercial leasehold agreements. This had resulted in additional rental liabilities being incurred for which various options to mitigate them were being considered. The second issue involved Freedom of Information (FOI) compliance. He explained that the Council had a statutory duty to respond to freedom of information requests within 20 working days however, the Council's processes for identifying, distributing and responding to FOI requests had not kept pace with the significant growth in the number of requests received. Consequently the council did not consistently meet the 20 day deadline for responding to FOI requests.

Members heard that in late 2013/14 new processes were introduced to improve management information and accountability, thus allowing the council to strengthen its performance in this area in 2014/15. The Chief Finance Officer proposed over the coming year to take steps to address the above matters to further enhance the Council's governance arrangements. He added that the implementation of those arrangements would be monitored as part of the next annual review.

RESOLVED:

that the content of the Annual Governance Statement (AGS) be approved.

12. Any other urgent business

None.

13. Date of next meeting

It was noted that the next meeting would take place on 29 September 2014.

The meeting closed at 9.45 pm

D EWART
Chair