



# **LONDON BOROUGH OF BRENT**

## **MINUTES OF THE AUDIT COMMITTEE Tuesday 23 June 2015 at 7.00 pm**

PRESENT: Mr Ewart (Chair) and Councillors A Choudry, Naheerathan and Nerva and Thomas (for Khan).

Also present: Councillor Mahmood

Apologies for absence were received from: Councillor Khan.

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

Councillor Choudry declared an interest in the item related to the Final Internal Audit report as a member of the Islamia School Governing Body and would leave the meeting for that item and not take part in the discussion. The Chair declared an interest as a former Director at LB Ealing and user of their Audit Service in his role as Treasurer of the Mortlake Crematorium Board. Steve Lucas (KPMG) declared he was the KPMG Audit Manager at LB Ealing.

### **2. Deputations**

None.

### **3. Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 24 March 2015 be approved as an accurate record of the meeting.

### **4. Matters arising**

Members considered training needs mindful of the new committee membership. Conrad Hall reminded the meeting of the perceived need for treasury management training, as well as the further training as outlined at the previous meeting and the discussion over the estimated costs of £9,000. Members suggested that means of obtaining better value for money be considered for example by extending the training to other members however Phil Johnstone (KPMG) stressed the aim was for members to be supported in learning to challenge officers, analyse, and effect change which was a specialist role. The rate offered was already discounted however annual changes to the committee's members posed an additional challenge. Phil Johnstone reminded that the aim was for the training to be tailored to members' individual needs as far as possible.

It was noted that the risk register would be presented to the next meeting.

RESOLVED:

that the Chief Finance Officer recirculate the proposals for member training considered at the 24 March 2015 meeting with a request that any views be returned to him within two weeks, and that subject to any significant objections, the arrangement for the training proceed.

**5. Order of business**

The committee agreed to take later in the meeting those items relating to KPMG.

**6. Draft Statement of Accounts 2014/15**

The committee received the draft Statement of Accounts for 2014/2015 as approved by the Chief Finance Officer prior to their submission for audit. The Chief Finance Officer, Conrad Hall, invited questions either at the meeting or subsequently via email. Members raised questions on the increase in schools' balances to £22m and the impact on the balance sheet of current central government plans to extend Right To Buy to housing association properties.

Conrad Hall responded that discussions would be taking place with schools over their plans to spend the money for educational purposes. Regarding the Right To Buy extension the committee heard that the value of council housing stock as disclosed in the accounts was not based on market value. The detail of the legislation was still unknown, but the cost of funding housing associations RTB discounts through sale of council properties as they became vacant was likely to be significant. The costs to housing associations would have to be met by local authorities. He confirmed that the HRA balance which currently stood at £4.5m was required for investment in housing stock which might provided some short term mitigation against the impact of the legislation.

Members raised questions on the position of the council's property assets and Conrad Hall drew attention to the balance sheet of assets held for sale and advised that most had been sold. The remaining substantial property unsold, Brent House, was due to be sold shortly. He undertook to write to members on the suggestion for Brent House to be used for temporary accommodation.

Members referred to the current level of staff changes and queried whether the redundancy provision had increased. The Chief Finance Officer drew attention to Note 10 in his report, the Movement in Reserves Statement, and the £3.725m balance as at 31 March 2015. Previously costs would have been met from the mainstream revenue budget. Phil Johnstone (KPMG) added that concern over excessive redundancy payments would be raised however there had been no cause for concern in the previous year. The question was raised as to in what circumstances the enhanced redundancy payment would be made and who would take the decision. Conrad Hall advised that the terms for compulsory and voluntary redundancy payments had been agreed by the General Purposes Committee in February 2015 and that in 2014/15 there had been no exemptions. The Chief Finance Officer also confirmed that the low interest rates were the most significant factor in the calculation of the pension liability and that a rise in interest rates would,

other things being equal, tend to have the effect of decreasing the pension liability. The Actuary carried out an estimate of liability every three years which would take into account interest rates, forecast investment returns, the demographic profile of the workforce, enhanced retirement packages granted and estimates of future life span.

Members drew attention to the rent arrears and the increase in HRA debt, up by 30%, which Conrad Hall agreed was a concern. He suggested this be the subject of further discussion when the accounts were approved in September.

RESOLVED:

- (i) that the report be noted;
- (ii) that the Chief Finance Officer and his staff be thanked for their work on the Statement of Accounts.

## **7. KPMG progress report**

Phil Johnstone (Director, KPMG) was present for this item and together with Steve Lucas (Senior Manager, KPMG) and outlined the role of KPMG as the council's External Auditors. The report before members from KPMG was a progress report as work was about to start on the Audit of the Financial Statement. Members heard that KPMG also had the responsibility of dealing with enquires from the public which, while on the increase, the role of the External Auditor was constrained. The committee's attention was drawn to the Audit Fee Letter for 2015/16 and the decrease in the fee for the main audit by 25% following the closure of the Audit Commission. Phil Johnstone gave notice that this may potentially change in 2016-17 as the infrastructure needed to be evaluated. He also advised that the External Auditor's contribution to the report had increased as the extent to which the Internal Audit work could be taken into account had reduced. Conrad Hall reaffirmed KPMG's role as external auditors was to confirm that the accounts were true and fair and that to seek to draw on their expertise for ways of increasing efficiency was a consultancy role and a potential conflict of interest. In the light of the experience in Tower Hamlets, Phil Johnstone acknowledged the need to highlight good practice and would do so in discussions with the Chief Executive and Chief Finance Officer.

RESOLVED:

that the report be noted.

## **8. Accounts and Audit Regulations 2015**

The report from the Chief Finance Officer provided an update on the Accounts and Audit Regulations 2015 which were laid before Parliament on 17 February 2015 and which came into force on 1 April 2015. The Chief Finance Officer drew attention to one of the effects of the legislation which was to change the timeline to require the publication of the audited statement of accounts by 31 July each year from 2017/18.

RESOLVED:

that the publication and requirements of the Accounts and Audit Regulations be noted.

## **9. Final Internal Audit progress report**

The report from the Chief Finance Officer summarised the work of the Internal Audit and the Investigation Team and provided an update on progress since the previous report to committee on 24 March 2015. Present at the meeting were Margaret Read (Director, Brent Customer Services) and Andrew Monkley (Subsidy and Policy Manager) as requested at the previous meeting, to give a further update on the action plan prepared in response to the findings of the audit into Discretionary Housing Payments. The committee noted that Discretionary Housing Payments had been given a Limited Assurance and Simon Lane (Head of Internal Audit and Investigations) explained the reasons for this which included concerns over failure to sign off high value awards, the same person assessing and authorising payments and the absence of sample checking.

Margaret Read sought to assure the committee that concerns were being taken seriously and appropriate action was being taken. The procedures in place were designed to avoid claims being passed back and forth between staff and staff had been reminded of the process and procedures. Much work had been carried out, including sampling, processes re-written and reinforced including at staff meetings.

The committee heard that checks were carried out on discretionary payments, the sums having increased over recent years due to the Benefits Cap and that while not visible, checking did take place. Margaret Read assured of monitoring of the types of award made and any awards above an indicative amount would have been investigated. Simon Lane added that while the calculation was likely to be correct, what was required was evidence of how it had been made. Conrad Hall contributed that records needed to be kept, that were proportionate to the decision being made.

Andrew Monkley advised that in most cases the calculation was the difference between housing benefit and rent however he took on board the fact that while this was clear to the assessor, evidence of the calculation would now be recorded.

Margaret Read pointed out that funding had been reduced from £4.2m to £2.6m and the committee agreed on the need for tighter controls. The Chair indicated that the Audit Team would be asked to conduct a further review in six months' time and to report back if not satisfactory.

Andrew Monkley referred to the action plan in place to address previously identified concerns over the standard of file notes and assessments for the self employed. An automated system was in place for file notes and linked document folders which was being checked regularly and a self employee expense form was now being completed in every case. He assured that monitoring continued and any errors found had been corrected.

*(At this stage Councillor Choudry, having declared an interest as a governor as Islamia Primary School, left the meeting and returned after the conclusion of the discussion).*

The committee considered the five outstanding projects from the 2014/15 Internal Audit. While welcoming the overall improvement, it was felt that the number limited assurance reports at 28% was still too high, with two schools with nil assurance. The Chief Finance Officer attributed the improvements made to work by officers but stressed that the assurance levels remained a matter of very significant concern. The Chair on behalf of the committee expressed concern at the number of limited assurances and proposed that the Strategic Director, Regeneration and Growth write to Brent Housing Partnership to express the committee's concern. It was also agreed that the Strategic Director, Children and Young People write to the Governors for the two schools with nil assurances, Islamia and St Mary's RC, and invite them to the next meeting.

Simon Lane drew members' attention to the number of planned audit days which would be reduced, resulting in a reduction in the fee of £15,800. The Chair thanked the Audit Team for their work in particular, illegal sub-lets which had resulted in properties returning to the council control. The committee expressed concern over the number of BHP limited assurance reports given the council's responsibility as landlord.

**RESOLVED:**

- (i) that subject to the reports remaining "limited" the relevant directors responsible for the following be asked to attend the September meeting of the Committee:
  - a) Accounts Payable
  - b) Members' Declarations of Interests;
- (ii) that the Strategic Director, Children and Young People be asked to invite representatives of the following schools be asked to attend the next meeting of the committee:
  - a) St Mary's RC Primary School
  - b) Islamia Primary School
- (iii) that the Strategic Director, Regeneration and Growth be asked to write to Brent Housing Partnership to express the committee's concern with the number of "limited assurance" reports.

**10. Annual Audit Report**

The committee considered the annual report from the Head of Internal Audit which included an opinion on the overall adequacy and effectiveness of the Council's internal controls and presented a summary of the audit work undertaken during the year.

Simon Lane (Head of Internal Audit and Investigations), in introducing the report, welcomed the reduction in the number of limited and nil assurance reports however, drew attention to the high level of limited assurance reports. He highlighted the good practice advice regularly given to managers arising from internal audit and investigation work namely, to retain documentation necessary to support decisions and also to introduce controls that helped maintain segregation of duty. He again referred to the improvement in the balance between limited and substantial

assurance reports. On internal fraud cases, 17 had been investigated however there was evidence of general compliance with internal standards.

The Chair emphasised that key messages emerging from internal audits should be reinforced and thanked Simon Lane and the Audit and Fraud teams for the quality of their work.

RESOLVED:

- (i) that the report be noted;
- (ii) that the Chief Finance Officer be asked to bring to the attention of all Directors the following comments from the Head of Audit and Investigations namely .
  - (a) the high level of limited assurance reports;
  - (b) the specific themes of:
    - (1) the need to ensure that documentation is retained to support decisions/assessments; and
    - (2) the reductions in staffing levels may increase the risk of fraud and hence compensatory controls need to be put in place;
- (iii) that Simon Lane, the Audit and Investigation staff and the staff from Mazars be thanked for their work throughout the year and their achievements.

## **11. Annual Governance Statement**

Simon Lane introduced the report from the Chief Finance Officer which set out the draft Annual Governance Statement (AGS) for 2014/15 as required by the Accounts and Audit Regulations 2015. He drew attention to key elements of governance set out in the report advising of the requirement to report significant issues. The draft Statement had been considered by the Council's Corporate Management Team without comment.

Members considered the corporate risk threshold and extent to which potential risks should be publicised. The Chief Finance Officer advised that practice across London varied with Brent operating in the middle. Phil Johnstone (KPMG) concurred that the reputational and financial damage were not usually disclosed and in any event, frequently were already in the public domain.

## **12. Any other urgent business**

### *Membership*

The committee nominated Councillor A Choudry to the position of as Vice-Chair. The committee noted the fifth member of the committee was due to be agreed at the next Full Council meeting.

### *Shared Service*

The Chief Finance Officer confirmed that agreement had been given for the shared Audit Service with LB Ealing to proceed with effect from 1 October 2015. TUPE regulations would apply.

13. **Simon Lane**

The Committee noted that this was the last meeting to be attended by Simon Lane (Head of Audit and Investigations) as he was leaving the council's employment to take a new role elsewhere. Members wished to place on record their thanks to him for his dedicated service to Brent and to this committee and wished him well for the future.

The meeting closed at 9.10 pm

D EWART  
Chair