



LONDON BOROUGH OF BRENT

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

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

Also present: Councillor Gladbaum

Apologies for absence were received from: Councillor Cummins

1. Declarations of personal and prejudicial interests

There were no declarations of interest.

2. Deputations

None.

3. Minutes of the previous meeting

RESOLVED:-

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

4. Matters arising

There were no matters arising.

5. Annual Governance Statement

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

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

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

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

RESOLVED: -

that the Annual Governance Statement be approved.

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

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

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

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

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

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

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

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

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

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

RESOLVED: -

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

7. The Treasury Management Annual Report 2011/12

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

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

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

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

RESOLVED: -

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

8. Corporate Risk Register

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

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

RESOLVED:-

That the updated Corporate Risk Register be noted.

9. 1st Internal Audit Progress Report 2012/13

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

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

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

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

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

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

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

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

RESOLVED: -

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

10. **Any other urgent business**

None.

11. **Date of next meeting**

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

The meeting closed at 9.40 pm

S WOOD
Chair