



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Monday 29 September 2014 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair), Councillor Khan (Vice-Chair) and Councillors A Choudry, McLeish, Thomas and Warren (alternate for Councillor Davidson).

Also present: Councillors Butt, S Choudhary, Filson and Pavey

Apologies for absence were received from: Councillors Van Kalwala and Davidson

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

None.

2. **Deputations**

None.

3. **Minutes of the previous meeting held on 26 June 2014**

RESOLVED:-

that the minutes of the previous meeting held on 26 June 2014 be approved as an accurate record of the meeting.

4. **Matters arising**

ISA 260 for 2012/13

It was noted that the Chief Finance officer had circulated the ISA 260 to all members, as requested.

Section 106 legal agreement.

Members noted that the breakdown of the Council's receipts for Section 106 legal agreements had not been circulated and requested that the Operational Director of Planning and Regeneration be reminded to do so.

5. **Statement of Accounts 2013/14 and External Auditor's Report**

The Committee considered a report that summarised the key findings arising from the audit work by KPMG (external auditors) of the Authority's 2013-14 financial statements, Brent Pension Fund Scheme administered under the Local Government Pension Scheme and KPMG's 2013-14 conclusion on the Authority's

arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Phil Johnstone, Director of KPMG stated that KPMG anticipated issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014 and an unqualified audit opinion in relation to the Pension Fund's financial statements. KPMG also expected to report that the wording of Authority's Annual Governance Statement (AGS) accorded with their understanding. He reported that a material adjustment of £28.7 million to the primary financial statements which related to the valuation of additions to Council dwellings was identified. In addition five other non trivial audit adjustments and a small number of trivial presentational adjustments were identified. He emphasised that these did not impact on the General Fund balance.

He informed members that KPMG worked with officers throughout the year to discuss the significant audit risk area identified arising from the triennial valuation of Brent Pension Fund. In his view, the Authority addressed the issues appropriately. The standard audit risk of management override of controls and the audit testing of journal entries, accounting estimates and significant transactions outside the normal course of business or unusual were considered but did not identify any issues. The Director added that the changes by the Authority to the format of the financial statements this year to help make them reader friendly for interested parties was a welcome approach and demonstrated considerable thought. Phil Johnstone found that the financial statements were prepared to a good standard with working papers ready for the start of the audit and that officers dealt efficiently with audit queries. He continued that the Authority's organisational control environment was effective and that no significant weaknesses in controls over key financial systems were identified.

Phil Johnstone drew members' attention to two recommendations made in relation to strengthening the Authority's control environment both relating to Plant, Property and Equipment and clarified them as follows; on the revaluation of Council dwelling additions, the Authority's surveyor should review the amount spent and calculate the increase in market value of Council dwellings as part of the closedown process for 2014/15; on the valuation of the Civic Centre, the components of the Civic Centre should be separately included in the fixed asset register and depreciated over their respective estimated useful lives. He added that management response to both recommendations was positive with anticipated completion date of March 2015.

A member observed that the statement of accounts did not mention payments to the current Chief Executive and enquired as to the reasons for the non-disclosure. He also enquired as to whether the Council's Private Finance Initiative (PFI) contracts represented value for money. In responding to the Chief Executive's salary, the Chief Finance Officer stated that the amount paid was reflected in the accounts, a view that was shared by Phil Johnstone who added that in KPMG's view, this matter raised no issue of concern in the accounts. In respect of PFI contracts, the Chief Finance Officer clarified with reference to note 29 of the accounts (appendix 2) that amplified the Council's PFI contracts and service concessions. Phil Johnstone added that the impact of those contracts was not significant on the size of Brent's accounts and reiterated that in KPMG's view, those contracts raised no issues of concern.

Phil Johnstone stated that the Authority had the right structure in place for income generation and to deliver changes to service, adding that and in the detail risk assessment undertaken KPMG did not identify issues of concern. The level of reserves was also considered adequate. Conrad Hall (Chief Finance Officer) advised members that the Pension Fund deficit was a long term liability which was planned to 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 of the Fund, undertaken as at 31 March 2013.

On behalf of the Committee, the Chair expressed appreciation to KPMG, the Chief Finance Officer and his team for an excellent work on the 2013/14 accounts. In welcoming the report and the opinions expressed by the external auditors, members approved the statement of accounts and agreed that the Chair sign them, and he and the Chief Finance Officer sign the letter of representation to KPMG.

RESOLVED:-

- (i) that the statement of accounts 2013/14 and external auditor's report be approved and signed by the Chair as such;
- (ii) that the letter of representation to KPMG (external auditor) be approved.

6. 2014/15 Mid year treasury management

Members received a report from the Chief Finance Officer that provided an update on treasury management for 2014/15, in accordance with the 'CIPFA Code' which recommended that members be informed of treasury management activities at least twice a year. Mick Bowden (Operational Director of Finance) advised the Committee that the Council continued to seek opportunities to minimise current and longer-term costs, commensurate with the overriding need to safeguard the Council's resources. With that in view, the successful identification, monitoring and control of risk were central to the Council's treasury management strategy.

The Operational Director drew members' attention to the Public Works Loan Board (PWLB) rates and added that due to its simplicity affordability and ease, PWLB represented a strong advantage over other sources of long term funding. Members heard that through the Council's adopted cautious and considered approach no loans have been raised so far this year. He continued that officers had complied with its Prudential Indicators for 2014/15, which were set in March 2014 as part of the Council's Treasury Management Strategy Statement (TMSS) and confirmed that the Council's treasury management activity during the current financial year had been in accordance with the strategy and budget approved by the Council for 2014/15.

In his closing remarks, Operational Director informed the meeting that a member training session on treasury management to be delivered by Arlingclose was being organised prior to the start of the next meeting which would be held on 24 November 2014. The training session would commence from 5.00pm.

On behalf of the Committee, the Chair expressed appreciation to KPMG, the Chief Finance Officer and his team for an excellent treasury management progress report.

RESOLVED:-

that the 2014/15 mid year treasury management report be noted.

7. **Internal audit progress report 2014/15**

Members considered a report which provided an update on progress against the internal audit plan for the period 1 April 2014 to 31 August 2014. The report also provided a summary of counter fraud work for 2014/15 and the appendix to the report summarised those reports from the 2013/14 plan which had been finalised since the last committee meeting.

Simon Lane Head of Internal Audit and Investigation informed members that of the Internal Audit Plan for 2014/15 of 1,200 days, 905 days would be delivered by Mazars and a further 295 days would be delivered in-house. In setting out the key points, he stated that there were 78 projects on the current plan (excluding follow up and advisory work) and that work had commenced on 39 of them. 6 projects were removed from the original agreed plan which had been replaced with 4 others and that 10 projects had been delayed at the request of management from quarters 1 or 2. 18 projects had been completed to draft or final stage of which 14 had an audit opinion associated with them; 11 substantial and 3 limited. The other projects were grant certifications which did not have an assurance rating attached to them.

Simon Lane drew members' attention to the list of limited assurance reports together with recommendations made and deadlines for implementation. Members noted that limited assurance report was issued for the marketing of space available for hire at the Civic Centre, sickness absence management, adult social care, millennium centre, demolition of properties in South Kilburn and Children and Young People which could impact on the council's funds. He pointed out that 3 further limited assurance reports (Adolescence, IT contracts between departments and BHP former tenants arrears) issued did not impact on the council's funds. Members welcomed a team from Children and Young People Gail Tolley (Strategic Director, Children and Young People), Graham Genoni (Operational Director, Social Care) and Nigel Chapman (Head of Placements) who were in attendance to brief the Committee on actions taken by the department to address limited assurance report issued .

Gail Tolley (Strategic Director, Children and Young People) in setting out the context stated that the Framework financial system had been introduced in early 2014. The fieldwork for this audit was undertaken in February 2014 with a draft report completed in May 2014 with a final version issued in September 2014. Following the fieldwork, prompt actions were taken to address issues raised in the report. Members heard that actions had been taken in the following priority areas;

- (i) Document retention system was now in place and firmly established and that a framework agreement was in place with all fostering agencies using the West London Alliance framework.

- (ii) Care plans were being completed on time, signed off by a manager with an additional tracking system for monitoring in place.
- (iii) Statutory time frames for Looked After Children (LAC) were being met and improved monitoring system was in place following the appointment of a new lead manager.
- (iv) Since February 2014, all providers were being required to submit their remittance slips by the 15th of the following month, otherwise payment would be withheld. A small number of remittance slips were outstanding from January 2014 and these have been chased.

Graham Genoni added that the financial systems put in place had enabled officers to cross reference and thus minimise any slippage. He continued that the current Frameworki system together with collaborative role with West London Alliance (WLA) had enabled the department to bring the level of historic overspending under control. Members heard that the social care service was more robust than before with increased monitoring, auditing and adequate caseload for care planning teams being supported.

In response to members' questions officers from Children and Young People (C&YP) confirmed that since the Frameworki system was introduced in February 2014, progress had been made and that the service was complying with the requirements of the audit report. The system which enabled officers to cross reference and minimise any slippages and together with collaborative role with West London Alliance (WLA) had resulted in historic overspending being brought under significant control. Officers and managers were confident that the current system and measures in place were more robust to address the concerns raised in the last audit report. Members were advised that all Looked After Children (LAC) had access to advocacy services and that educational psychology services were built into their care packages where this was clearly set out as beneficial within their care plans.

Simon Lane then gave a progress report on internal fraud, housing benefit fraud, housing tenancy fraud and other external fraud as set out in the report. He continued that the Department of Works and Pensions (the DWP) had established a single fraud investigation service and staff currently working within the Audit and Investigation team would transfer to the DWP on 1st October 2014. Due to the changes, Audit and Investigations were no longer accepting HB fraud referrals as they were all being routed through to the DWP. All work on HB fraud had effectively ceased as the team prepared to migrate case files by secure methodology to the DWP. He advised members that cases which had already been referred to the council's legal service for prosecution would continue to be dealt with by the council but any further investigative input would come from DWP staff. The funding implications of the transfer for the Council were highlighted.

It was agreed that the transfer of fraud work and staff to the DWP be publicized in Brent Magazine and via councillors' surgeries so that the public would know where to go. In bringing the discussion to an end the Chair commended officers of Audit and Investigation team and Mazars for the internal audit progress report. He drew members' attention to the list of areas for which limited assurance reports were

issued requested if they wished to make further additions to it. It was suggested that the audit report on IT contract be included if it was completed.

RESOLVED:-

that the progress made in achieving the 2014/15 Internal Audit Plan, the review of fraud work and the limited assurance reports as set out in appendix 1 of the report be noted.

8. **Risk register**

The Committee received a report that provided an update on the Council's current corporate risk register. Simon Lane (Head of Audit and Investigations) informed members about changes to the scoring of financial impacts with limits increased by 50% for different categories so as to make it easier to differentiate between levels of risks. Members also heard that there had been a number of changes since the Committee last reviewed the risk register in March 2014 which he clarified.

Each strategic risk had now been linked to an existing Borough Plan theme, the key objectives for the council with a number of updates made to reflect the current position. He continued that Operational Risks within Regeneration and Growth had been promoted from the departmental register onto the corporate register due to high risk scores. These included the risk of lack of business investment in the borough resulting in reduced National Non Domestic Rate (NNDR) receipts; customer service transformation; and Employment training initiatives.

He advised members on the following risks which had been removed due to reduced risk scores;

- (i) assaults within the Civic Centre that due its low risk scores;
- (ii) recycling target not being met by March 2014 and mobilisation of public realm contract within Environment and Neighbourhood;
- (iii) fraud risk; failure to produce medium term financial strategy; Pension fund position and IT systems failure within Finance and IT. A new risk concerning data security was added however;
- (iv) all existing risks within the Assistant Chief Executive's Department although two new risks concerning public health were added.

Councillor Warren queried whether the Troubled Families Programme was considered a risk. Simon Lane responded that there were financial risks attached to non achievement of the programme. Councillor Warren also commented that there were risks also to those families identified as being troubled families if the council did not deliver on the programme.

RESOLVED:-

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

9. **Any other urgent business**

None.

10. **Date of next meeting**

Members noted that an additional meeting had been scheduled to take place on 24 November 2014 and that a training session on treasury management by Arlingclose would commence from 5.00pm.

The meeting closed at 9.32 pm

D Ewart
Chair