



## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Wednesday 7 January 2015 at 7.00 pm

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

Also present: Councillors S Choudhary and Pavey

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

##### 10. Shared internal audit services

Mr David Ewart (Independent Chair) declared that he used to be a director at Ealing Council and was in receipt of a pension from the Ealing Pension Fund. He also received a salary from Ealing Council on an agency basis as an employee of Mortlake Crematorium Board of which he is Treasurer. The Board has used Ealing Council's Internal Audit to carry out audits of the Board's returns.

Simon Lane declared that he would potentially be directly affected by the proposals contained in the report; shared internal audit services.

Steve Lucas (KPMG) declared that he was the audit manager for Ealing and Hounslow Councils.

The Committee were content that none of the above declarations prevented the individuals speaking in respect of the shared internal audit services report.

#### 2. **Deputations**

None.

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

RESOLVED:-

that the minutes of the previous meeting held on 24 November 2014 be approved as an accurate record of the meeting subject to the following amendment; Phil Johnstone, Director at KPMG, asked that the minutes be corrected to reflect the comments he made at the last meeting [to the effect that he thought that Brent was well served by an experienced Chief Executive, and that the fact that the appointment was not permanent did not cause him to have concerns as appointed auditor.

#### 4. **Matters arising**

##### ***National Fraud Initiative***

It was reported that Simon Lane (Head of Internal Audit) had circulated details of the composition of the group of authorities against which the Council was being compared.

##### ***Key Performance Indicators (KPI) – Social Care***

Members noted that the Operational Director, Social Care had not circulated the Key Performance Indicators (KPI) as agreed at the last meeting and asked that he be reminded to do so.

#### 5. **Certification of Grants and Returns**

The Committee received a report from KPMG (external auditors) which set out the certification of work undertaken by KPMG for 2013/14. This was a requirement by the Audit Commission for the external auditors to prepare an annual report on the claims and returns it had certified for the Council. Steve Lucas (Audit Manager) introduced the report.

In relation to the HB subsidy claim, Steve Lucas identified that HB subsidy was a complex area and over 50% of councils have their claim qualified. He continued that for the Housing Benefit Subsidy claim, the Authority identified 83 cases referred to them by Brent Mental Health Service totaling £1,177,334. This had been misclassified within the claim but was later corrected and resulted in an increase of subsidy due to the Authority of £332,439.

Councillor Filson asked whether officers should be praised for identifying this underclaim. Phil Johnstone (KPMG) pointed out that officers were correcting their own errors.

As part of separate testing, KPMG tested the accuracy of 60 claims and identified 5 errors.. The errors either relating to classification on the claim or the amount paid to the claimant. These included incorrect non-dependent deductions made, an extended payment incorrectly awarded; and errors in the calculation of self-employed income. The Authority tested a further 80 cases and identified errors in 33 cases. This primarily concerned self employed cases where either an incorrect amount was used for expenses or there was no evidence to support the basis for the expense amount. This resulted in four overpayments, nine errors which did not change the value of the individual claims and 20 which would have resulted in underpayments based on the information on file. As a result of KPMG's testing the Housing Benefit Subsidy claim was qualified with the total extrapolated error, based on the errors found approximately £100,000.

Members heard that the Authority had addressed two of the three recommendations made in 2012/13 relating to the housing benefit grant claim. The third recommendation on removing errors in rent and income figures used had not been addressed as there was a significant increase in the number of cases which could either not be evidenced or disagreed to the evidence available this year. The main area was self-employed income, including eligible deductions.

Andy Monkley (Subsidy and Policy Manager) was in attendance to answer queries on housing benefit subsidy. Andy Donald, Strategic Director R&G, was also present. Andy Monkley explained that this was the first time that the Council had identified that level of errors with self employed income assessment. Mr Monkley explained that the majority of errors related to a lack of audit trail for the calculations. He added that the department would carry out a review of procedures by the end of January 2015. . The review would involve a standard template for self employed cases; standard note entries as part of the documentation clarifying income and expenses; and training for senior officers. Andy Monkley undertook to submit the results of the review to the Committee within 6 months. This approach was endorsed by Phil Johnstone (Director, KPMG) and the Chair who also added that it was unusual for any Council to receive a priority 1 recommendation.

In the ensuing discussion, members acknowledged that although self employed income assessment is a complex area, the level and quantity of identified error was unacceptably high. Members also thanked officers for continuing to review the claim after the submission date, which resulted in identifying the correction.

Members queried whether KPMG felt these errors were human error or procedural. Phil Johnstone indicated that he felt there must be a systemic weakness due to the large number. Councillor Davidson requested that the Chief Finance Officer undertake a review of the whole process of assessing claims. Members raised their concerns about the very high number of errors with both Cllrs Davidson and Aslam Choudry requesting their concerns be noted.

Conrad Hall (Chief Finance Officer) clarified that although errors had been identified the more significant issue was absence of documentation. He highlighted this issue as a recurring theme for the committee to focus on, as without evidence of why decisions were made the council would be unable to respond effectively to, for example, complaints. He added that as the problem was confined to a particular area of self employed cases, he was not minded to initiate a wider review at this point in time. He advised members to obtain an action plan from the officers concerned, against which they should review progress in approximately six months' time to give reassurance to members.

Councillor Filson raised the issue of recommendations made in the previous audit in relation to not implementing the recommendations.

Mr Monkley explained that the errors identified this year were different and no errors had been found in relation to rent errors.

RESOLVED:

- (i) that the Annual Audit Letter be noted;
- (ii) that the Subsidy and Policy Manager circulate an action plan to the Committee before the end of the month;
- (ii) that the progress against the action plan and the review of self employed income assessment in relation to housing benefit claims be reported to the Committee within 6 months.

## 6. **External audit progress report and technical update**

Members considered a report by KPMG which provided an overview on progress in delivering KPMG's responsibilities as the external auditors. The report also flagged up publications/articles that may be of interest to the Committee and also highlighted technical issues which were currently having an impact in local government.

Phil Johnstone (Director, KPMG) updated members on audit work completed for the 2013/14 financial year since the last Audit Committee meeting which covered certification of the Council's Housing Benefit subsidy claim, issuing of Grant claim and return and a report on Teachers' Pension return. Members heard that testing on contribution rates for other teachers in the sample did not identify any other errors. He continued that as part of KPMG's detailed planning work in the next quarter, the risk assessment would be updated to determine the audit plans, highlighting the key risks for the Authority and the Pension Fund and that detailed annual plan would be presented to the Committee at its meeting in March 2015. Members heard that there were no audit concerns that needed to be raised in relation to the audit of the accounts or the VFM conclusion from the external auditor's knowledge to date. He continued that the proposed audit fee for 2014/15 remained at £263,520 for the Authority's audit and £21,000 for the Pension Fund with further substantial reductions of 20%-25% anticipated for 2015/16.

RESOLVED:

that the external audit progress report and the technical update be noted.

## 7. **Treasury management strategy 2015/16**

The report presented the draft Treasury Management Strategy for 2015/16 for consideration by the Committee. The final version of the Strategy, incorporating the views of the Committee, would be included in the budget report to be approved by the Council on 2 March 2015.

Mick Bowden (Operational Director of Finance) introduced the report. He stated that the purpose of the Treasury Management Strategy (TMSS) was to set out the TMSS for 2015/16 and the Annual Investment Strategy for 2015/16 and central to both strategies was the successful identification, monitoring and control of risk. He drew members attention to table 1 of the report that showed that as at 30 November, 2014 the Authority's had £432m of long and short-term debt and £142m of investments and the list of institutions which met the Council's credit worthiness criteria.

Conrad Hall (Chief Finance Officer) informed members that the Council's external interest budget for 2014/15 was £17.0m, with budgeted investment income of £0.6m with the minimum revenue provision (set aside for the repayment of debt) of £11.3m. He added that the setting of the capital financing budget for 2015/16 would form part of the overall budget decision to be taken by the Council on 2 March 2015.

RESOLVED:

that the draft Treasury Management Strategy 2015/16 be noted.

#### **8. 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 December 2014 together with a summary of counter fraud work for 2014/15. As resolved at a previous meeting, members agreed to receive clarifications from senior officers from departments which received limited assurance internal audit reports. The Committee welcomed Andy Donald (Strategic Director of Regeneration and Growth) and Richard Barrett (Operational Director of Property and Projects).

Simon Lane (Head of Internal Audit) reported on the main areas of weaknesses and key issues in respect of income from the Melting Pot, Civic Centre underground car park and Library Café. He explained that the performance of Europa (the contractor) in respect of the reported gross profit margins were not being monitored or benchmarked against any industry average/target margins and that discrepancies were found in the reported financial figures provided by the contractor. He continued that there was a lack of evidence to support the reported income and expenditure information being provided by Europa and an absence of an action plan to address the cumulative net loss with no basis provided by the contractor for the £20,000 profit projections for 2015/16. Further, that Europa were not maintaining separate accounts for hospitality and the café, which carried different profit share arrangements, therefore an accurate assessment of the council's entitlement could not be made.

Andy Donald acknowledged the weaknesses identified in the audit and stated that he had engaged with Europa in a wider review prior to the commencement of the audit which had helped to inform the client side in particular, the catering side and the car park. Richard Barrett added that as a result of the engagement, Europa had agreed to a separation of financial figures to enable transparency and a potential variation to the contract which previously allowed Europa to recover their costs quicker than expected. In respect of gross profit margin Richard Barrett informed members that monthly monitoring had been agreed as was industry wide benchmarking. He added that as part of the monthly review process, discrepancies, when found, were being flagged up by the Performance Manager.

In the discussion that followed, members queried why the department did not identify the anomalies through robust monitoring of the contract with Europa. Members also questioned as to whether there was a robust business plan and whether any other options were considered before the contract with Europa was entered into including an understanding of the Europa's operations. Concerns were also expressed about the discrepancies referred to in the audit and officers were asked to quantify the level.

Members also expressed concern that the amortisation of plant and other capital costs had been determined by the contractor without reference to officers, and that officers had not sought to challenge this. The Operational Director acknowledged the concern and agreed that this should have happened, but pointed out that the effect of this would be to increase the profit share to the council in future years. The

operational director undertook to check the terms of the contract in relation to the charging of capital expenditure. Expenditure relating to the fit out of the library café had not been anticipated when the contract was drafted.

Miyako Graham (Audit Manager, Mazars) confirmed that the level of discrepancies in relation to the monthly monitoring sheets was of low value. Richard Barrett informed members that alternative models were being examined. He reiterated that the contract with Europa would be re-examined and that benchmarking of their costs had been sought. Andy Donald echoed the responses adding that the contract would be fundamentally restructured to ensure that the concerns expressed in the audit were addressed.

The Chief Finance Officer added that it was not necessarily wrong to seek to let commercially sophisticated contracts such as with Europa, incorporating as it does profit share and other mechanisms. However, without the officers in place with the commercial expertise to manage these, such contracts were inherently high risk, and in this case where contract monitoring was as weak as it was the results would always be highly unsatisfactory.

The Committee also received senior officers from Children and Young People: Gail Tolley (Strategic Director), Graham Genoni (Operational Director) and Neil McDonald (Head of Localities and CWD) to the meeting.

Simon Lane summarised the key findings of the audit of the No Recourse to Public Funds audit. The audit related to the provision of support for those children and families with children who are unable to access the normal range of welfare benefits due to their immigration status. The main issues from the audit related to a lack of a formally defined operational policy and procedure document, a lack of audit trail including evidence of approval for payments and issues concerning the recharge from housing options. and tracking of the client's status and a number of errors in the sample testing. Members heard that the budget for NRPF in 2013/14 of £520,000 was underspend by £138k and for 2014/15, although the service budget had remained at £520k the projected year-end forecast based on current families being provided with a NRPF service was £673k - a projected overspend of £153,000. He then drew members' attention to the recommendations made to the department to address the key findings as set out in the report.

Gail Tolley informed the Committee that the projected overspend was in response to an exponential increase in demand which was not peculiar to Brent. She continued that a new team was in place and addressing the findings of the internal audit with robust policies and procedures already in place and which would be documented and consolidated into local NRPF procedures. She added that the department was in discussion with housing services on how to take these forward as well as to manage the budget effectively. Graham Genoni added that the current procedures in place were fairly robust to ensure that the concerns identified in the audit were addressed. In order to prevent overpayments occurring again, NRPF cases were being held in the Care Planning and Locality teams were now being jointly allocated to the NRPF team in order to ensure payments were monitored and status tracked accordingly. The NRPF team undertook regular payment checks to ensure that all payments approved to be made have actually been made in a complete and timely manner. Any discrepancies were being followed up with the Finance team and a copy of the checks undertaken should be

retained by the NRPF team. Neil McDonald outlined some of the measures put in place to address the audit findings including bi-monthly reviews and added that in order to bring costs down, accommodation was being made available in the West Midlands areas. He continued that the payment to the 'overpaid' mother was terminated with immediate effect and that the mother was now being pursued for repayment by the Audit and Investigation team.

Gail Tolley advised members that the actual level of spend in Brent, compared with other similar authorities, was relatively low due to the efforts made by the team to contain costs.

Members enquired of the Chief Finance Officer about the budgetary pressures. Conrad Hall replied that a key issue was the level of control, and that the audit had shown that this was limited, with sample checks indicating a high level of cases where payments had been made without appropriate documentation.

Simon Lane then provided a routine update on progress against the internal audit plan for the period 1 April to 31 December 2014. Members heard that 677 days had been delivered of a total of 1,200 representing 56%. There were 80 projects on the current plan (excluding follow up and advisory work). 41 of the projects had been completed to draft or final stage and that 32 those had an audit opinion associated with them; 24 substantial, 7 limited and 1 full assurance rating. The other projects were grant certifications which did not have an assurance rating attached. He reported that in relation to the Audit Plan for 2015/16, he had commenced preliminary meetings with a number of strategic directors which would be concluded by mid January. As the proposed audit plan would be submitted to committee in March, he requested members to provide him with any areas of concern for consideration for inclusion in the plan prior to 31 January 2015.

In respect of internal fraud Simon Lane reported that since the last meeting, four cases had been closed in which fraud was identified. These resulted in: one dismissal at disciplinary for claiming benefit when not entitled whilst working (for a school); two resignations prior to hearings for misuse of council property and one warning for non-adherence to policy. He continued that on housing tenancy fraud 36 social housing tenancies were identified and 3 applications were cancelled for housing and 2 families had their property size reduced following investigations. These property size reductions related to applications for housing where applicants overstate their true need. Members also heard that since the previous meeting, a further five cases of fraud had been identified. These related to a pension fraud valued at £5,200, three SPD frauds with a combined value of £2,000 and a home loss grant fraud of £5,300. Members noted that the Audit and investigations team had recently completed an SPD proactive exercise which had generated some £220,000 in additional council tax debt.

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 be noted.

## 9. **Corporate Risk register**

The Committee considered a report which presented the council's current Corporate Risk Register. Simon Lane (Head of Audit and Investigations) in introducing the report informed members that a new Risk Management Group had been established, chaired by the Chief Finance Officer. The remit of the group was to promote best practice in risk management, review and challenge the content of the strategic risk register and to review key issues in respect of the operational risk registers. He drew members attention to the changes to the risk register since the Committee last met, attached as an appendix to the report.

Strategic risk, an overarching risk relating to the draft proposed budget for 2015/16 and 2016/17 and covering all council departments with individual risks on their own operational registers, had been added to the strategic register. This was to take account of the financial challenge which continued to present significant risks to the council in terms of continued delivery of services and managing change. The Chief Finance Officer corrected an error on the document: ownership of which should have been shown to be his responsibility.

In terms of operational risks, the following were noted;

Adult Social Care - Risks concerning the failure to engage with key partners leading to additional cost pressures and the risk of fraud in direct payments were removed from the corporate register due to a residual score of 12 or less.

Assistant Chief Executive Department and Regeneration and Growth Department – a number of new risks as set out in the report were added

Environment and Neighbourhood – risk relating to failure of public realm contract was removed but the risk of service difficulties; reputational harm or failure during organisational change was added.

Children and Young People – there were no updates.

Cllr Davidson highlighted the implications for the Council in a failure to comply with its legal obligations and queried why this risk was not given a higher rating due to the recent tribunal loss. Simon Lane pointed out that the risk being referred to related to consultation and that the employment tribunal risks were picked up within the legal and procurement operational register. Cllr Davidson suggested the risk score was not high enough. Conrad Hall undertook to review this. Attention was also drawn to the risk of the council's inability to provide or provide enough school capacity through the schools capital programme which would constitute a breach of the council's statutory duty. The risk of the failure to achieve delivery of customer services project was also highlighted.

RESOLVED:

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

## 10. **Shared internal audit services**

Members considered a report that set out a proposal to share internal audit services with the London Boroughs of Ealing and Hounslow which would enable an immediate saving on management costs to be achieved. Conrad Hall (Chief Finance Officer) introduced the report. He emphasised that the need for shared

internal audit services was partly in response to the financial pressures facing the Council and the need to make savings of an average of 40% in the provision of its support services. Initially the proposal would deliver some savings, but over time, the proposal would also deliver further financial savings through economies of scale and efficiencies and the opportunity to improve the service by facilitating more cross-borough working and sharing best practice, thus enhancing the resilience of the service.

The Chief Finance Officer outlined the significant importance of the service in providing an essential service to the organisation including providing responsive service to management whilst maintaining a degree of independence from day to day operations. He continued that a more significant consideration would be the resilience of the service as small teams lack the inherent resilience of larger teams. Additionally, there was a significant risk that substantial downsizing of the service would result in a model which he could no longer be confident of delivering high quality outcomes. In view of the above reasons, an alternative service delivery model had been examined, sharing services with Ealing and Hounslow, who already operated a shared internal audit service. Conrad Hall further emphasized that the scope of internal audit would not change under the proposals and that sharing services could, in future deliver efficiencies of scale and enable the council to drive out more costs. He further pointed out that although the service would be based in Ealing, there would always need to be a presence at Brent in order to provide the service.

After declaring his interest, Simon Lane (Head of Internal Audit) outlined the pros and cons of the shared service. The main drawback being the loss of control over the function. The method of delivery being determined by Head of Internal Audit (HIA) Ealing. This may not suit Brent. However, there would be a legal agreement underpinning the arrangement which would set out the expected standards and delivery and standards would be governed by the document. Further, he pointed out that there would be less Head of Audit time at Brent with one HIA spreading themselves across three boroughs, although this can be offset by having good senior staff in place in each authority. Some of the advantages included the immediate cost saving of the Head of Audit salary and the potential to spread management and contract costs over a larger team in future. However, some of the savings may be offset by increase in costs of travel between sites. There may also be some economies of scale in undertaking audits across three boroughs if other services were also shared.

In the ensuing discussions, members enquired as to whether this arrangement was a new phenomenon in London and if other Councils had entered into an arrangement for shared internal audit services. They also sought assurances that the proposed arrangement would protect the interests of the Council, that the head of audit would continue to be able to report to the Audit Committee, Chief Executive and Chief Finance Officer and that a direct access to the Head of Audit would be available. Cllr Davidson suggested that more shared services of all council services should be considered if a satisfactory business case existed.

Phil Johnstone (KPMG) informed members that shared internal audit services was a relatively common model across London in view of its benefits including financial and cost savings, specialism and economies of scale. In welcoming the proposal subject to the views expressed, members asked that the proposal be monitored and

that the Chief Finance Officer report within one year of commencement, evaluating the effectiveness of the new arrangements.

RESOLVED:

- (i) that the Audit Committee is supportive of the principle of the proposal;
- (ii) that the Audit Committee considered it essential that a full and proper legal agreement was entered into to underpin the shared service arrangement to protect the Council's interests;
- (iii) that the Audit Committee were reassured by officers that a satisfactory legal agreement would be entered into prior to commencement of the proposal, ensuring in particular that the arrangements for the head of audit to be able to report directly to the Audit Committee, Chief Executive and Chief Finance Officer would remain unchanged and that a direct access to the Head of Audit would be available;
- (iv) that the Audit Committee noted that the audit plan for 2015/16 would be agreed prior to commencement of the proposal and that the annual governance statement and head of audit's annual opinion for 2014/15 would need to be completed;
- (v) that the Audit Committee agreed to receive a report within one year of commencement evaluating the effectiveness of the new arrangements;
- (vi) that the Audit Committee noted that in due course there might be scope to consider adding other services into the arrangement, if a satisfactory business case existed.

**11. Any other urgent business**

None.

**12. Date of next meeting**

It was noted that the next meeting would take place on Tuesday, 24 March 2015 at 7.00pm.

The meeting closed at 10.15 pm

D Ewart  
Chair