



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Tuesday 24 March 2015 at 7.00 pm

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

Also present: Councillors Chohan, S Choudhary, Pavey and Perrin and KPMG representatives Steve Lucas and Sally Anne Eldridge

Apologies for absence were received from: Councillor Khan and Mr Phil Johnstone (KPMG)

1. Declarations of personal and prejudicial interests

10 Recruitment of Independent Chair of the Audit Committee

Mr David Ewart declared a disclosable pecuniary interest as he was the current Chair of the Audit Committee. He stated that he would vacate the meeting room during consideration of this item.

2. Deputations

None.

3. Minutes of the previous meeting

RESOLVED:-

that the minutes of the previous meeting held on 7 January 2015 be approved as an accurate record of the meeting.

4. Matters arising

Housing benefit subsidy

In response to a member's enquiry, Simon Lane (Head of Audit and Investigations) reported that following a presentation to the Committee responding to the findings of the audit Andy Monkley, Subsidy and Policy Manager, had developed an action plan and provided a brief written update on progress. Simon Lane noted that the original action plan was behind schedule although the service had been making progress to bring this up to date. The written update which had been circulated to all members of the Committee had been reproduced in paragraph 3.6 of the Chief Finance Officer's report entitled Internal Audit Progress Report. He added that as

decided by the Committee, representatives of the department would be back to provide a further update to the Committee at its next meeting in June.

5. KPMG External Audit Plan

Members received a report from the external auditor (KPMG) which described how KPMG would deliver the audit work for London Borough of Brent and the Brent Pension Fund. The report was presented by Steve Lucas (Audit Manager). He informed members that KPMG's overall audit approach remained similar to last year's with no fundamental changes. The work would be carried out in four stages with the timings and onsite work agreed with the Chief Finance Officer. He continued that the audit strategy and plan would remain flexible as risks and issues changed throughout the year and that the initial assessments would be reviewed and new risks that emerged would be evaluated and responded to accordingly.

Steve Lucas informed members that KPMG had completed their initial risk assessment for the financial statements audit and along with the two risks required by international auditing standards; two specific risks relating to accounting for school assets used by the Authority's maintained Schools and the Authority's new general ledger were identified. He added that the initial risk assessment for the Pension Fund's financial statements audit had identified one significant risk this year which related to changes made to the Local Government Pension Scheme from 1 April 2014 and how the Authority calculated pension entitlement. Members noted that KPMG's initial risk assessment for the VFM conclusion had not identified any specific risks at this stage. In his view, the Authority had robust systems and processes in place to manage effectively, financial risks and opportunities in a secure and stable financial position. He added that the Authority was prioritising resources within tighter budgets by cost reductions, improved efficiency and productivity.

Steve Lucas continued that KPMG's main year end audit was currently planned to commence in early July 2015 and that the findings would be presented to the Committee in a report entitled "*Report to Those Charged with Governance (ISA 260 Report)*". He added that the planned fee for the 2014/15 audit would be £266,120, an increase of £2,600 due to the Audit Commission increasing the fee scale to take account of the additional work required on National Non Domestic Rates (NNDR).

In response to the Chair's question, Steve Lucas clarified the level of materiality used by KPMG and that they would only bring unadjusted errors in excess of £1m to the attention of the Audit Committee.

RESOLVED:

that the findings of the external auditor's report be noted.

6. KPMG Terms of reference for audit committee training

The Committee considered a report that set out the objectives and the timetable for Audit Committee members' effective training. Conrad Hall (Chief Finance Officer) in setting the background stated that the training, to be delivered by KPMG specialist team, would aim to assess the committee's effectiveness and look at the characteristics of an effective audit committee and ensure all members of the audit

committee have a clear and shared understanding of their role in holding the Council to account.

Sally Anne Eldridge of KPMG stated that KPMG had been asked by the Chief Finance Officer to develop and deliver training to audit committee members to help them understand their role more fully and to improve the audit committee's effectiveness. She added that the training programme would include Brent Housing Partnership Audit Committee's members. She outlined the approach to the training as follows; a review of documentation including audit committee papers and forward plan; observation of the Council and Brent Housing Partnership audit committee meetings; survey of audit committee members; face to face meetings with audit committee members in advance of the training; and initial training session. Sally Anne Eldridge drew members' attention to the list of documentation that would be requested from members including their curriculum vitae (CVs) to include basic information such as the amount of time as a councillor, any business or financial training, any audit or scrutiny experience and any other council committee experience. Members learnt that the training would cost £9,600 which would be charged separately and thus additional to KPMG's audit fees.

Members welcomed the report but in the discussion that followed, they expressed a view that as the membership of the Committee was both small and transient, the estimated cost of the training would not represent value for money. Conrad Hall, Chief Finance Officer, responded that members were sighted on the proposal at the last meeting and that Sally Anne Eldridge had attended that meeting as part of developing the proposal. In response to a query from members as to whether the training had already been commissioned, Conrad Hall advised that he would only progress if members were content that the proposal represented value for money and was needed. It was suggested that the report be referred to the General Purposes (GP) Committee for their consideration. Councillor Pavey (Deputy Leader) advised that the appropriate body to re-consider the report would be Member Development Reference Group. Members then agreed that the Chief Finance Officer should work closely with the Member Development team and the Reference Group with a view to identifying a training programme that would be cost effective including a cross council training programme.

RESOLVED:

that the report proposing member training for audit committee members be referred to the Member Development team and the Reference Group for their consideration with a view to identifying a training programme that would be cost effective including a cross council training programme

7. Internal Audit Progress Report

Members considered a report that provided an update on progress against the internal audit plan for the period 1 April 2014 to 28 February 2015 and a summary of counter fraud work for 2014/15. In agreeing to receive first Chief Officers who were in attendance to explain the results of their service area's audit, members welcomed Chris Whyte (Head of Recycling and Waste), Phil Porter (Strategic Director, Adult Social Care) and Raksha Pindoria (Head of Client Team, Adult Social Care).

Simon Lane (Head of Audit and Investigations) reported on the weaknesses he had identified on the ECHO application audit. He explained that ECHO was a business information system designed and managed by Veolia under the Public Realm Contract with the Council. Simon Lane brought to members' attention the following key areas of weakness as part of the audit:

Failure to review and update the training matrix to confirm that all staff have been adequately trained; lack of a clear indication of the current license arrangements in place; use of weak passwords to authenticate access to the ECHO system; storing of user passwords in unencrypted format; weak user access management processes; absence of a process to report and review critical changes on the system; absence of adequate up to date restore and recovery arrangements; and absence of service level key performance targets. He made the point that the current issues around password security do not conform to minimum PSN standards. As a result of the audit, one priority 1, four priority 2 and one priority 3 recommendations were raised.

Chris Whyte (Head of Recycling and Waste) explained that the main areas of concern involved security and use of the system which had been live for less than a year. He added that the recommendations of the audit as set out in the report would be carried out and that the system controls would be subject to a review by the technical team of Veolia, the owners of the system. He was confident that Veolia would comply with the Council's request as they were keen to partner the Council in the management of waste. In respect of timescale, Chris Whyte stated that it would take about 3 months to carry out the recommendations effectively.

Members instructed the Head of Audit and Investigations to oversee the implementation of the recommendations and if dissatisfied the Chief Finance Officer should report back to the Committee. Chris Whyte was thanked for his contribution.

The Head of Audit and Investigations then reported on the audit findings of Appointee and deputyship audit within Adult Social Care as follows;

- Documentation for Appointeeship & Deputyship clients not always retained on Framework I to support applications, income received and expenditures paid;
- Exceptions identified by Softbox were not resolved within a timely manner;
- Softbox Exceptions reports were not flagging all exceptions;
- Reconciliations were not being carried out on a monthly basis.

As a result of the audit, four priority 1, eleven priority 2 and one priority 3 recommendations were raised.

By way of introduction, Phil Porter clarified the differences between Appointeeship, and Deputyship and their respective duties as set out in the report. He added that as from 2013, the Council decided that due to cost pressure and the inability to collect any fees from the Appointeeship clients to cover the administration costs, it would no longer accept any new Appointeeship clients (unless there were exceptional circumstances). As this decision was expected to result in an increase in the number of Deputyship clients managed by the Council, the Council was now planning to charge for appointee and may start accepting new Appointeeship clients once the plan was finalised.

In respect of the audit findings the Strategic Director submitted that the current Procedures Manual for Appointeeship Clients and Deputyship was being updated

with a separate document outlining the policies and procedures regularly being reviewed. He continued that the annual audit on valuable items would be undertaken by 27 March 2015 and that this would occur on an annual basis. Raksha Pindoria added that income and expenditure discrepancies were being accurately identified in the exceptions report which was being signed off to evidence a review. She continued that she was liaising with IT to address any functionality issue. The Strategic Director added that reconciliation between SoftBox and Appointee & Deputy Bank Account and also between ResFunds and old bank accounts were being undertaken on a monthly basis as were direct expenditure payments and prepaid card payments. Members also heard that since migration to One Oracle, the Team had been unable to complete reconciliations but that solution to address this issue had only just come to light. The Strategic Director acknowledged the issues with storing source documents on shared drives and the lack of security but that Framework 1 was not an appropriate repository for invoices etc.

In the discussions that followed, Members shared the view that maintaining documentation including invoices on shared drive was risky as they could be deleted accidentally, expressing preference for a more secure method. In response to a member's question, the Strategic Director stated that the department would have carried out all the recommendations in the audit by 30 June 2015 and that appropriate checks and balances were in place to ensure that the target date could be met.

Phil Porter and Raksha Pindoria were thanked for their presentation.

Simon Lane then gave a regular update on the internal audit plan including internal fraud, external fraud and housing tenancy fraud. Members heard that out of a total of 1,200, 840 days had been delivered and that there were 84 projects on the current plan (excluding follow up and advisory work). Limited assurance reports for the current year was 26% compared to 42% in the previous year. The Chief Finance Officer pointed out that this level of limited assurance reports was still too high.

Councillor Filson queried whether it was possible to complete the plan within the available days, given the level of achievement so far. Simon Lane pointed out that the benefit of outsourcing was that the contractor to flex resources into the contract and was confident that the outstanding projects would be completed within the remaining days. In respect of the presentations by the Andy Monkley (Subsidy Manager, Housing Benefit) and Andy Donald (Strategic Director of Regeneration and Growth), Simon Lane drew members' attention to the written update circulated by Andy Monkley and reproduced in paragraph 3.6 of the report by the Chief Finance Officer.

Members took note of the limited assurance rating reports for JFS and Princess Frederica earlier and bearing in mind the Chief Finance Officer's advice on delegated powers to Governing Bodies, members were minded to invite the Chair of Governors/Financial Director of voluntary aided and maintained schools to future meetings to explain their limited assurance rating and outline measures to address it. In welcoming the report, members expressed their appreciation to Simon Lane and his team for the excellent work particularly for the recovery of 51 properties

which would be released to homeless families, a substantial financial saving to the Council.

Members requested details of the number of staff who have been prosecuted for fraud for 2014/15.

RESOLVED:-

- (i) that the report the Chief Finance Officer's report on internal audit be noted;
- (ii) that Strategic Director of Regeneration and Growth and the Housing Subsidy Manager (Housing Benefit) be re-invited to give progress reports on their responses to the limited assurance ratings;
- (iii) that Chairs of Governors/Financial Directors of voluntary aided and maintained schools with limited assurance rating reports be invited to future meetings to explain the results of their schools' audits and to provide measures to address them.

8. Risk Register

Members considered a report that presented the council's current Corporate Risk Register. Simon Lane (Head of Audit and Investigations) drew members' attention to appendix 1 of the report from the Chief Finance Officer that set out the council's corporate and key operational risks. In addition, there were further risks contained within the departmental registers which can be viewed via the infostore system. Strategic Directors were required to maintain an operational risk register and review this periodically with their Departmental Management Teams and were kept up to date.

Members were advised that corporate risks had remained relatively static with financial challenge across the authority and specifically within Adult Social Care as a result of demographic pressures, being identified as corporate risks. The Head of Audit and Investigations added that further work would have to be done to align risks with the new senior management structure, particularly relating to those which were now within the sphere of Chief Operating Officer's responsibility.

RESOLVED:

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

9. Internal Audit Plan 2015/16

The Committee considered a report which set out the Draft Internal Audit Plan ("the Plan") for 2015/16 and the basis on which the plan had been formulated taking into account the council's strategic and operational risks and in close liaison with KPMG (external auditors). Simon Lane (Head of Audit and Investigations) informed members that the internal audit service in partnership with Mazars Public Sector Audit Limited, would deliver 996 days (Mazars 590, in-house 406). Members heard that the plan was to reduce the number of bought in days from 900 to 600, the reduction being offset by the use of a CIPFA trainee for the full year.

In reference to table 1 that set out the planned days by department, the Head of A&I stated that whilst the number of days within the Chief Operating Officer's department appeared high, it was broadly comparable with the number of days in the constituent departments in 14/15. He added that the BHP Audit Committee had already confirmed that it required the same level of audit coverage as the previous year. He then drew members' attention to the indicative timetable showing the schedule of audit in Q1 to Q4.

In the ensuing discussions, it was suggested that recruitment be added to the audit plan and to include principally, the advertisement, interview and assessment for the Chief Operating Officer's post and the Chief Executive's post. The Chief Finance Officer responded that the audit plan was to focus on the system and the selection of the sample rather than on an individual. In endorsing the advice by the Chief Finance Officer, Members expressed a view for additional columns indicating results of previous year's audit so as to allow for comparison. In welcoming the report, officers were instructed to send to members the revised days and the 2009/10 audit recommendation on recruitment.

Members were concerned about the lack of audit coverage on recruitment and selection and Simon Lane undertook to provide details of the follow up work undertaken in this area.

RESOLVED:

- (i) that the approach taken to formulate the draft plan for the 2015/16 financial year be noted and that the content of the plan be approved;
- (ii) that copies of the revised days for the audit plan and the 2009/10 audit recommendation on recruitment be sent to all members of the Committee.

10. **Recruitment of Independent Chair of the Audit Committee**

Having declared an interest in the item, David Ewart (Independent Chair) left the meeting room and took no part in the discussion and voting. Councillor Choudry chaired the meeting for this item only.

Members considered a report that set out the arrangements for the appointment of the Independent Chair of Audit Committee, as the term of office for the current Chair would end on 24 June 2015. Members heard that the current Chair was eligible to apply. Conrad Hall (Chief Finance Officer) informed members that the post would be advertised in conjunction with the position of Chair of the Pensions Board and that candidates would be able to apply for one or both positions, drawing attention to the person specification attached at appendix 1. The Chief Finance Officer added that the constitution of the Pensions Board had been agreed at a meeting of the General Purposes Committee at its meeting on 25 February 2015.

RESOLVED:

that the arrangements set out within the report from the Chief Finance Officer for the recruitment of Independent Chair of the Committee be noted and that the person specification attached at appendix 1 be approved.

11. **Any other urgent business**

Vote of thanks.

The Chair announced the end of his term of office and thanked members and officers for their invaluable contribution and advice over the years.

12. **Date of next meeting**

The date of next meeting will be confirmed at the Council's Annual General Meeting (AGM) on 20 April 2015.

The meeting closed at 9.12 pm

D Ewart
Chair