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## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Monday 20 March 2017 at 7.00 pm

**PRESENT:** Mr David Ewart (Chair), Mr Eugene Sullivan (Independent Member) and Councillors Davidson, Hoda-Benn, Khan, Long and Nerva

**ALSO PRESENT:** Councillor McLennan

The Chair announced that Andrew Sayers (Partner at KPMG) had replaced Phillip Jonhstone (Director at KPMG) as engagement lead for the Council.

The Chair welcomed Councillors Hoda-Benn and Long to the Committee.

#### 1. Apologies for absence and clarification of alternate members

Apologies for absence were received from Councillors A Choundry (with Councillor Long substituting) and Naheerathan (with Councillor Hoda-Benn substituting).

#### 2. Declarations of personal and prejudicial interests

The Chair declared that he was a former Finance Director at the London Borough of Ealing until 2013.

#### 3. Deputations

There were no deputations received.

#### 4. Minutes of the previous meeting

**RESOLVED** that the minutes of the previous meeting, held on 11 January 2017, be approved as an accurate record of the meeting and signed by the Chair.

*Councillor Long entered the meeting at 7:02 pm.*

#### 5. Matters arising

##### (i) Internal Audit Report – Torah Temimah Primary School

Conrad Hall (the Council's Chief Finance Officer) informed the Committee that a significant majority of the recommendations had been addressed or were to be completed. One action had not been completed yet as it had been related to teaching qualifications. Mr Hall said that the school was still seeking to pursue the issue, but had not been possible to obtain qualifications in the time between the previous meeting of the Committee in January and the middle of March 2017.

**(ii) *Planning Applications Audit Report***

The Chair asked for a progress update on actions that had been due to be completed by 31 January 2017 and the response whether audit control on Acolaid had been switched on or off when the Council bought the software be sent to Mr Sullivan (Independent Member).

**(iii) *Risk Management Arrangements and Strategic Risk Update***

It was noted that the Risk Management Review would be discussed under Item 12 to the Agenda.

**(iv) *Review of Shared Services***

Conrad Hall (the Council's Chief Finance Officer) informed the Committee that it was intended to complete the transfer of staff back to Brent Council and to confirm formalities with PriceWaterhouseCoopers(PwC) by 1 April. He highlighted that he had consulted Legal and Human Resources and that both actions were on track so there was a possibility to complete them on time, without reasons for concern. An offer to appoint to the post of Head of Audit and Investigation had been made and it had been accepted verbally, with references still pending.

**(v) *Local Government Ombudsman's Investigation into a Complaint Against London Borough of Brent***

The Chair informed the Committee that the issue would be discussed under Item Number 6 to the Agenda.

**6. The Role of the Audit Committee in Local Government Ombudsman (LGO) Reports**

Irene Bremang (the Council's Head of Performance and Improvement) introduced the report which set out the role of the Committee in the rare event of the Local Government Ombudsman (LGO) issuing a report against the Council, two of which had been issued against the Council in the past five years. Ms Bremang explained that if a report was issued against the Council, it would be considered by Full Council (or a committee with delegated authority) if it concerned non-executive functions, or considered by the Cabinet if it concerned an executive function. She highlighted that the Committee role would be to help the Council, along with Council officers, to use the learning from the report to improve Council services and customer experience.

The Chair said that, as only two reports had been issued in the last five years, this had showed that complaints had been resolved at earlier stages. In response to a Member's question about the two reports that had been received, Ms Bremang explained that one had been related to Housing and a domestic violence referral and said that she would find more information about the second one and inform Members accordingly.

**RESOLVED that the contents of the report be noted.**

## **7. External Audit Progress Report**

Andrew Sayers (Partner at KPMG) presented the report which summarised the audit activities undertaken by KPMG in the period January 2017 to March 2017. He drew the Committee's attention to key work undertaken by KPMG which could be found on page 18 to the Agenda Pack. Mr Sayers highlighted that KPMG had reviewed the Council's response to the six objections to the 2015-16 accounts and was requesting additional information or clarification on some of the documents that had been supplied. He stated that he had met with Carolyn Downs (the Council's Chief Executive), Althea Loderick (the Council's Strategic Director for Resources) and Conrad Hall (the Council's Chief Finance Officer) as part of KPMG's planning processes and an audit plan for 2016-17 had been issued.

Members of the Committee asked questions which related to the six objections to the accounts that had been received and the additional cost for work by KPMG on these. The Committee heard that all objectors had been notified that their objections had been accepted and that the additional charge was to be confirmed at the next meeting of the Committee. It was noted that once objections had been accepted, these would need to be investigated in-depth. Ms Downs said that Mr Hall and her had met all five objectors and had had long constructive discussions with them.

In relation to the objection about Lender Option Borrower Option loans, Mr Sayers clarified that a number of authorities had received similar objections and that although a similar approach to decision making had been taken, decisions reached had not been the same.

**RESOLVED that** the contents of the External Audit Progress Report be noted.

## **8. External Audit Plan 2016-17**

Andrew Sayers (Partner at KPMG) presented the External Audit Plan 2016-17. He drew the Committee's attention to key points, presented in the Plan, such as materiality (which had been set at £12 million for the Council and £6 million for the Pension Fund), management override of controls, pension valuation (data had been much more extensive than in previous years), plants and equipment (valuation adjustments were to be made), fraud and revenue recognition (related to spending Section 106 funds). He also noted that there was a new format of the Comprehensive Income and Expenditure Account and Movement in Reserves Statement with a new Expenditure and Funding Analysis statement which would require prior years' comparatives to be restated. He added that despite the fact that value for money was not an area of significant risk, KPMG would focus on financial resilience and if any other areas had to be examined, the Committee would be informed. Mr Sayers confirmed that KPMG remained independent and encouraged Committee Members to bring to KPMG's attention any issues, which may be related to fraud and ones which the Committee may have concerns about.

Members asked questions that related to rotation of external auditors and the current best practice for re-tendering for external auditors. Mr Sayers explained that there were two elements – individual rotation of the person in the company who was responsible and general rotation which meant that after an external auditor had been in place for five years, an approval was required to allow the company to work

with the Local Authority for another two years. Conrad Hall (the Council's Chief Finance Officer) added that the Council had signed up for the sector-led process (through procurement by Public Sector Audit Appointments (PSAA)) and the particular reason for this had been to create a buffer between the Council and the auditor as appointment of the auditor would not be made directly. It was clarified that KPMG had started its fifth year as an external auditor of Brent Council.

Members enquired how the benefit of value for money fitted into the wider context. In response, Mr Sayers said that there had been three aspects of value for money – informed decisions, financial resilience and working in partnership. He informed the Committee that KPMG would look at projects and examine how these had been conducted and may comment on what had been completed, what had not been achieved and what KPMG had observed in other organisations. Questions that related to the significance of the Brent Housing Partnership (BHP) were raised in the context of BHP's potential transfer back to the Council. Carolyn Downs (the Council's Chief Executive) explained that a decision about the potential transfer might have been taken by the time of the next meeting of the Audit Committee. She highlighted that the Council should have taken a stronger position and pushed for more internal audits of BHP. She emphasised that in the event of potential transfer of BHP back in-house, business as usual would not continue as senior staff would be changed, as most are temporary appointments, and a specific scrutiny panel (with residents co-opted on the panel) would be set up to oversee the transition. However, Ms Downs reminded the Committee that the Audit Plan discussed related to the 2016-2017 financial year so the potential transfer of BHP would not have an effect on the Plan.

The Chair thanked KPMG for its work on the External Audit Plan.

**RESOLVED** that the contents of the External Audit Plan 2016-2017 be noted and approved.

#### 9. **Annual Report on Grant Claims and Returns 2015-16**

Steve Lucas (Senior Manager at KPMG) introduced the report which summarised the results of work KPMG had carried out on the Council's 2015-2016 grant claims and returns. He highlighted that KPMG had carried out work on three grant claims and returns and the results had showed that one had been qualified with amendments (the Housing Benefit Subsidy), one had been unqualified but required amendment (The Teachers' Pension Return), and one had been unqualified with no amendments required (the Pooling of Housing Capital Receipts Return). Focusing on the Housing Benefit Subsidy, Mr Lucas explained that errors had been identified in two main areas. The first one was claims with self-employed income where 42% of claims had been subject to some form error. He noted that despite the fact that only 30% of claims had an error that had impacted the level of entitlement, the rate of error was still unacceptable. The second area was claims with earned income where basic hours had not been counted correctly due to incorrect typing of information (the rate of error had been 22.5% as the Council had checked 40 cases for earned income and had found nine errors).

Members enquired whether a similar situation had appeared in other boroughs and asked whether it would be possible to work with other local authorities to address the issue. Mr Lucas said that 60% to 70% of local authorities had received single

qualification letters, but the scale at Brent had been higher compared to other places, with a spike in claims related to self-employed income. He explained that the most common reasons for mistakes had been wrong figures being entered, and expenses not being backed up by evidence. Andrew Sayers (Partner at KPMG) added that as other authorities might have had errors in other areas, it would not be easy to collaborate with them.

Members of the Committee asked questions that related to the potential future risk of errors leading to residents being underpaid. In response, Mr Lucas said that there had been cases where people had been overpaid, underpaid or unaffected. He explained that there was not materiality in this case as there was either a mistake or not. He emphasised that there was a threshold, set by the Government, under which errors were accepted as it had been assumed that mistakes could happen. Conrad Hall (the Council's Chief Finance Officer) added that if error rate exceeded the threshold, financial penalties were applied to the authority as it had not performed well.

The Chair and the Committee Members agreed that officers from the Council's Housing Benefit Service be asked to attend the next or a future meeting of the Committee in order that Members could learn more and ask questions about the process.

**RESOLVED that**

- (i) The contents of the Annual Report on Grant Claims and Returns 2015-16 be noted; and
- (ii) Officers from Housing Benefit be invited to attend a future meeting of the Committee.

**10. Draft Internal Audit Strategy, Plan and Internal Audit Charter 2017/18**

Vanessa Bateman (the Council's Interim Head of Audit and Investigation) introduced the Draft Audit Strategy, which highlighted that the audit-related environment was constantly changing in response to the challenges faced by the Council. She emphasised that the Strategy set the key drivers in terms of flexibility of the service to ensure it could deliver effectively and better support the Council to achieve its objectives. It also outlined responsiveness to maximise outcomes through innovative resource use including technology, and linking with other sources of assurance. Ms Bateman explained that in developing the Strategy, she had considered the messages from management she had received and acknowledged the decision to return to in-house service and all the factors that had led to that decision.

Ms Bateman also introduced the Audit Plan for 2017-2018 and informed the Committee that the Plan had been developed using an assurance mapping process that had engaged senior management. Ms Bateman said that the Plan had acknowledged the need for the in-house service to be configured to deliver it and accounted for budgetary limitations. The Committee was informed that focused planning meetings had been undertaken for much of the Plan but these would commence once the Plan had been formally agreed, with the first audits being provisionally scheduled for April 2017.

In relation to Corporate Reviews, Ms Bateman explained that the Team would look at the corporate controls over risk areas but also consider the application in a sample of services as there had been a number of service level audits where the Council Management Team (CMT) had expressed an interest and engagement would be ensured by regular attendance at CMT with a forward look at the Plan. In terms of Schools' audit, Ms Bateman acknowledged that this was an area where the Committee had expressed concern so additional resources had been allocated and areas that required improvement had been identified. The Committee heard that Brent Housing Partnership (BHP) audits had been agreed by the BHP Audit Committee and provisions had been made in the Plan to accommodate the potential transfer of BHP back in-house.

Ms Bateman presented the Internal Audit Charter and highlighted that it helped the organisation understand the role of the audit service. She also noted that the Charter was a key governance document for Public Sector Internal Audit Standards.

Members of the Committee asked questions that related to audit in schools and blue badge fraud. In response, Ms Bateman explained that in relation to former, it was possible to learn from current practice and apply knowledge in other schools. She said that blue badge fraud was part of the pro-active fraud work and that the Internal Audit Team would be looking at how Parking approached it and whether it fully utilised the resource of the Team. The Committee heard that the blue badge process had been audited and work had been done in internal investigation, the report from which was being finalised. Conrad Hall (The Council's Chief Finance Officer) added that it was possible to audit the effectiveness of the contract for parking wardens.

A Member of the Committee enquired whether the debt collection process could be looked at as residents from their ward had complained about debt collectors being rude and aggressive when they had been approached by residents wishing to settle their debt. Mr Hall advised Members to forward him specific cases so they could be examined if they fell in the remit of audit rather than scrutiny.

Mr Sullivan (Independent Member) acknowledged that the resources available to the Team were constrained and recommended that items on the Plan had to be prioritised. Ms Bateman clarified that work would start on items proposed to be examined during the first quarter of the financial year and further prioritisation could be implemented at a later stage if necessary.

In relation to the new rules that related to the employment of agency workers (whether they were self-employed or employed), Mr Sullivan advised the Committee that Her Majesty's Revenue and Customs (HMRC) had designed a tool to assess their status and Ms Bateman said that there was a risk to the Council if it was not able to recruit for some roles as a result of these regulations.

**RESOLVED that:**

- (i) The contents of 2017-2018 Audit Strategy be approved;

- (ii) The approach taken to formulate the draft Plan for the 2017-2018 financial year be noted;
- (iii) The Draft Plan for the 2017-2018 financial year be approved; and
- (iv) The Council's Internal Audit Charter be approved.

## 11. Internal Audit & Counter Fraud Progress Report

Vanessa Bateman (the Council's Interim Head of Audit and Investigation) introduced the report which provided an update on the progress of the Internal Audit Plan and counter fraud work undertaken during the period 1 December 2016 to 28 February 2017.

She informed the Committee that 54 out of the 63 audits were in progress, with 35 internal audit projects completed to draft or final stage. She drew the Committee's attention to page 78 to the Agenda Pack which showed that out of the 23 audits where assurance was provided, 12 had received "reasonable" and 11 "limited" assurance. Ms Bateman explained that this reflected the focus of audit resources on areas of concern and indicated that the Service had to be more proactive in ensuring that managers were equipped with all the skills they needed and that the Council configured itself to better manage risk. She informed the Committee that the Internal Audit Team was monitoring progress on a weekly basis and aimed to complete field work by the end of March. Ms Bateman acknowledged that several audits were risks to delivery but it was expected that these would be finalised in April so they could be included in the annual report which was to be presented to the Committee in June. In terms of Priority 1 and Priority 2 recommendations, only 13 out of 115 had not been implemented and six had been partly implemented (page 80 to the Agenda Pack), with the non-implemented ones being closely monitored. Housing Fraud had been lower than the profile target, but the Team anticipated to hit the annual target of 51 cases. Furthermore, the Team continued to work proactively with management to ensure fraud prevention within processes remained a priority.

Mr Sullivan recommended that tables six, seven and eight (on pages 81, 83 and 85 to the Agenda Pack) be reconsidered as they were too difficult to understand.

**RESOLVED** that the progress made in delivering the 2016/17 Internal Audit Plan, and the associated counter fraud work, be noted.

## 12. Risk Management Review

Vanessa Bateman (the Council's Interim Head of Audit and Investigation) presented the report and informed the Committee that Risk Management had been an area of focus, with the Council's management requesting a new approach to be adopted. A review carried out by Ms Bateman sought to provide assurance to the Council's Management Team (CMT); inform the update of the Council's Risk Management Strategy; and form the basis for assurances contained within the 2016-2017 Head of Internal Audit Opinion.

The Committee heard that the outcome of the review had been to:

- confirm the views of CMT that there was good risk management being undertaken within Brent but the processes to effectively capture, share and maximise the opportunities from the activity required strengthening;
- indicate that there had been interrelated risks being managed in different parts of the Council without effective links;
- recognise that there was opportunity in linking the performance data of the Council with risk, in terms of indicators that the risk had been materialising or in determining that assurances had been positive around the control environment; and
- recognise that some risks currently included on the Strategic Risk Register could have sat at Directorate level until management information had escalated them for CMT's attention.

In response to Mr Sullivan's (Independent Member) comment that it would take a lot of work to complete the Risk Management Review, Ms Bateman said that there was an implementation plan, the first version of which would come to the next meeting of the Committee.

A Member of the Committee asked how the seven risks discussed in paragraph 3.4 of the Report (page 102 to the Agenda Pack) would reach the Council and elected Members, including Members of the Cabinet and the Council's scrutiny committees. Ms Bateman clarified that it would be possible to have broader discussion around the seven risks once the Risk Strategy was presented to the Committee for approval.

**RESOLVED** that the contents of the Risk Management Review report be noted.

### 13. **Draft Counter Fraud Strategy and Plan 2017/18**

Vanessa Bateman (the Council's Interim Head of Audit and Investigation) presented the report and highlighted that the Counter Fraud Strategy and Plan were in constant need of revaluation as they supported the Council to manage risk (paragraph 3.2 of the report on pages 105 and 106 to the Agenda Pack). The Committee heard that the Counter Fraud Work Plan for the 2017-2018 financial year (attached to the report) was not very different from the Plan for the previous year. The main focus remained the same, although the new Head of Audit and Investigation could bring new ideas to the Council.

The Chair invited Members to comment on issues that had to be examined but had not been included in the Plan as well as on the application of lessons learned to major risks that the Council faced. A Member of the Committee said that council tax fraud committed by private sector landlords could be investigated as it could appear to be a larger issue than Housing Benefit fraud. Mr Sullivan (Independent Member) commented that modern technology could be used to raise awareness of fraud as sometimes people could see something but may not want to call to report it. In response, Ms Bateman said that the Team had been working to share their expertise and get messages out to the community. It was also acknowledged that it would be a good idea to include fraud as part of Member induction in 2018.

**RESOLVED that** the contents of the Draft Counter Fraud Strategy and Plan 2017-18 be noted.

#### 14. **Improving the Working of the Committee**

The Chair introduced a report which set out a series of recommendations to the Constitutional Working Group that he believed would improve the working of the Committee. The Chair noted that the issue of an annual report to Full Council to present key messages and concerns from the Audit Committee which had already been discussed at previous meetings. Carolyn Downs (the Council's Chief Executive) supported the idea and this was echoed by Members of the Committee as the current arrangements did not provide an opportunity for other Members to reflect and comment on the work of the Committee.

The Chair spoke of the need for and the training being offered to Members. He said that there could be induction for Members and Conrad Hall (the Council's Chief Finance Officer) supported this statement by saying that there were areas, such as Treasury Management, where training was required. However, it was noted that training was not mandatory at present.

**RESOLVED that:**

- (i) The contents of Improving the Working of the Committee report be approved; and
- (ii) The Council's Constitutional Working Group be recommended that:
  - The Audit Committee present to the Full Council an annual report on the major issues identified and the level of assurance provided;
  - A programme of additional training be offered to Members of the Committee; and
  - Consideration be given to trying to maintain a common membership of the Committee, subject to the outcomes of elections.

#### 15. **Audit Committee Forward Plan**

Vanessa Bateman (the Council's Interim Head of Audit and Investigation) introduced the Forward Plan and highlighted that one of the drivers to have a forward plan was to monitor what was due to come to the Committee's attention. She explained that knowing that an issue was due to be discussed helped managing agendas and distributing the work of the Committee throughout the year. Conrad Hall (the Council's Chief Finance Officer) said that the Forward Plan was work in progress and it would be revised to accommodate any comments from Members.

Following a Member's question about the format, Members unanimously agreed that the Plan was easy to read and understand.

**RESOLVED that** the Audit Committee Forward Plan be noted.

**16. Any other urgent business**

None.

**17. Date of next meeting**

The date of the next meeting of the Audit Committee would be confirmed at the Annual Council Meeting on 17 May 2017.

The meeting closed at 8.41 pm

D EWART  
Chair