



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Wednesday 27 June 2012 at 7.30 pm

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

Also present: Councillor S Choudhary

1. **Welcome**

Members welcomed Councillor Cummins to his first meeting following his re-appointment to the Audit Committee.

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

None made.

3. **Deputations**

None.

4. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 22 February 2012 be approved as an accurate record of the meeting subject to the amendment of Clause 10 – Verbal update on progress of strategic risk register and civic centre project risk register, para 2, 2nd sentence to read: “in order to overcome the possibility of the main sub-station not being made available on target, every support would be given to QED in their negotiations with UK Power networks”.

5. **Matters arising**

None.

6. **Audit Commission Progress Report**

Andrea White and Martin Searle (Audit Commission) introduced the report from the Audit Commission which set out the Commission’s progress in discharging their responsibilities as the council’s external auditor. Martin Searle advised that the interim audit was nearing completion, the Commission was pleased with progress and there were no significant findings to date. Preparation of the 2011/12 financial

statements had been challenging and together with finance officers had been closely monitored. Work was also continuing on the council's private finance initiative schemes. It was expected that a complete set of financial statements would be ready by the end of the month. Discussions had also taken place over accounting arrangements for schools and improvements have been made.

The Deputy Director of Finance and Corporate Services, Mick Bowden, summarised the progress of work by finance officers. Issues raised in the previous year's audit had all been addressed including the technical accounting issues referred to the report. Final checks against the check list were taking place.

The Chair congratulated the finance team for their work and for adhering to the plans put in place the previous year. The Director of Finance and Corporate Services acknowledged the significant improvement in efficiency and advised that a review would be taking place at the end of the week. He also thanked the Audit Commission staff for their contribution.

Andrea White advised that auditing of the Pension Fund had commenced. The change in administration from LPFA to Capita Hartshead would be the subject of a report in November. The committee heard from Martin Searle that there were currently no Value For Money issues to report and the outcome of work would be reported in September 2012. Members also heard that the Audit Commission had received correspondence on issues of importance to the borough and its residents such as library transformation programme and would be responding. Martin Searle drew attention to the reduction in subsidy of approximately £15,000 resulting from the misclassification by the council of overpayments revealed by the Department of Work and Pensions and work on other grant claims would be prioritised for completion in advance of transfer to KPMG on 31 October 2012. Martin Searle reminded the committee of the announcement in the Queen's Speech of the government's intention abolish the Audit Commission and drew attention to the reduction in fees for the main audit and the certification of grant claims. The committee noted that the National Fraud Initiative had been successful and revealed issues on which members could challenge. Other matters of interest included consultation on Public Sector Audit Standards which would take place over the summer and the introduction of Local Payment By Results schemes in local authorities. It was noted that CIPFA's 'Brief Guide to Local Government Finance Reforms' was available.

Members welcomed the report, particularly the fee reduction, noted that the Payment By Results document was still in the process of being evaluated and asked that any relevant issues be circulated so a decision could be made on how best to proceed.

RESOLVED:

that the report be noted.

7. Annual Governance report - progress report on action plan

The committee received the report from the Director of Finance and Corporate Services which set out progress against the recommendations in the Annual Governance Report.

RESOLVED:

that the report be noted.

8. Treasury activity update

The report from the Director of Finance and Corporate Services, introduced by the Deputy Director, provided an update on recent treasury activity. It was noted that £4M was still outstanding from the Icelandic Bank deposits. The Brent Treasury List had been extended to bring in highly rated overseas banks following the downgrade of some UK banks. It was noted that as at 31 March 2012 there was a deposit with Santander UK. That bank had subsequently been removed from the list. All deposits were short term to reduce exposure. The Deputy Director drew attention to the possible need for long term borrowing later in the year for the capital programme.

RESOLVED:

that the report be noted.

9. Corporate Risk Register and departmental risk registers

The committee welcomed receipt of the council's Corporate Risk Register and Departmental Risk Registers presented in accordance with the risk management strategy and policy. Simon Lane (Audit and Investigations) reminded members that risks detailed were possibilities and the aim was to demonstrate that measures were in place to mitigate the likelihood of a risk occurring or its impact. He advised that the register had been signed off by the Executive and would be put before the Corporate Management Team on a quarterly basis highlighting key areas of concern. Discussions were taking place regularly with departments over operational risks and those of most concern reported to the Corporate Management Team.

The Chair identified that a number of risks carried the same score both before and after controls, querying whether or not this was correct. Simon Lane undertook to take this away and clarify although clearly this should not be the case. Reference was made to recent adverse publicity over the library transformation programme for which the Executive had ultimate responsibility. Members questioned the sources of assurance and were reminded that before them was a high level overview of activity and more detailed reports were in existence with each department having its own register. Further scrutiny was undertaken by the High Level Monitoring Group and this committee's role was to monitor whether the risk management system was effective rather than individual risk management. Internal Audit also had a monitoring role.

Members requested regular reporting of high risks, with corporate strategic risks reported to each meeting and an annual update of operational risks with appendices. Members also requested more information on previous activity so that scores could be compared. Simon Lane advised that service directors could be called to account for their indicators or issues referred to scrutiny committee where appropriate.

RESOLVED:-

that the contents of the Corporate Risk Register and Departmental Risk Registers be noted.

10. Final Internal Audit progress report 2011/12

Simon Lane (Audit and Investigations) introduced the report which summarised the work of the Audit and the Investigations Team and provided an update on progress since last reported in February 2012. He was pleased to report that in terms of inputs, 99% of the Internal Audit Plan had been delivered. Of concern were audits which had received a Limited Assurance opinion relating to corporate/cross cutting audits, service departments, some schools and computer audits and also Brent Housing Partnership.

Members expressed concern over the findings on school audits and questioned what further action could be taken to improve governance. Simon Lane responded that the findings were the result of a number of days working at each school, reporting to governing bodies and to head teachers and revisiting on a periodic basis. Resources did not allow for visits to all schools annually. Recommendations were considered and implementation plans discussed and agreed at exit meetings with relevant school staff. However, the extent to which concerns were taken seriously was questionable. The Director of Finance and Corporate Services advised that while ultimate responsibility rested with him, his powers were limited. He had issued guidance and attended conferences in an effort to impress the need for schools to work within the law and the financial regulations. Additionally, schools could buy in additional financial support. The Chair questioned whether there was any correlation between performance and deficits and surpluses and heard that none had been found. It was noted that the issue was on the Children's and Families risk register. Clive Heaphy referred to action being taken to terminate leasing arrangements into which some schools had entered which could potentially lead to deficits. Additionally, consideration was being given to strengthening the role of governing body clerks and additional training for the chairs governing bodies.

RESOLVED:

that the progress made in achieving the 2011/12 Internal Audit Plan and the review of fraud work be noted.

11. Annual Internal Audit Report 2011/12

The report before the committee summarised the work of Internal Audit and the Investigations Team and provided an update on progress since the previous report on 22 February 2012. Andrea White (Audit Commission) advised that the level of their testing was relatively high in the light of concerns in the previous year. Members questioned the findings of the Conflict of Interest audit which had only limited assurance and heard that the Internal Audit Team were working with departments to ensure consistency, not helped by the timing of the introduction of HR Oracle. Martin Searle (Audit Commission) made reference to the general ledger and the steps being taken with service areas to improve and embed processes. Elements relating to Oracle were taking longer to address.

In response to an enquiry, Simon Lane (Head of Audit and Investigations) referred to the summary of assurance opinions and direction of travel for the past three years and explained that issues with schools had a distorting effect on the figures. On priority recommendations where 86% had been fully or partly implemented he felt that this was an acceptable level, given the high numbers involved and emphasised the importance of the direction of travel. Members asked that consideration be given to how to provide qualitative analysis in addition to quantitative currently available.

The Annual Report on the work of Internal Audit included an opinion on the overall adequacy and effectiveness of the council's internal controls and presented a summary of the audit work undertaken during the year. He drew attention to the qualified opinion in relation to the effectiveness of financial and other controls in schools, which had been raised in the previous year's report. Specific areas of concern were failure to adhere to the national legal requirements concerning teachers' pay, specifically in relation to head teachers' pay and the appointment of relatives and also the procurement of equipment through finance leases. In regard to the investigation of fraud Simon Lane referred to the National Fraud Authority's new strategy for local government, the implementation of which was being reviewed. He drew members' attention to the 2011/12 fraud case load statistics and the sanctions that had been imposed on the closed cases. It was noted as part of new proposals for fraud investigation, a Single Fraud Investigation Service would operate under the remit of the Department of Work and Pensions and in the long term local authority staff would transfer to the DWP. A further report would be submitted on the implications of this and the government's recently released document *'Fighting Fraud Locally – The Local Government Fraud Strategy'*.

Andrea White (Audit Commission) emphasised the need for controls to be place to limit internal fraud and supported the council's zero tolerance approach. She acknowledged that the council was working with limited resources however noting that a number of cases had resulted in dismissal. Simon Lane explained that none of these dismissals related to incidents affecting the key financial systems or had a material impact upon finances and undertook to provide the Audit Commission with a detailed breakdown.

Members questioned the extent to which risk assessments were working given the finding of 33 cases of fraud and irregularity during a one year period. They were reminded that it was for this committee to take a strategic approach and consider the extent to which controls in place were effective.

RESOLVED:

that the report be noted.

12. **Internal Audit Plan 2012/13**

The report from the Director of Finance and Corporate Services advised of the final Internal Audit Plan for 2012/13. Members noted that as requested at the previous meeting, specific time for risk management time had been built in and also that an additional 20 days for follow up work on schools with earlier limited assurance reports had been included. Discussions had also taken place on linking the Plan to the Risk Register.

RESOLVED:-

that the report be noted.

13. **Any other urgent business**

None.

14. **Date of next meeting**

It was noted that the next meeting was due to take place on 27 September 2012.

The meeting closed at 9.40 pm

S WOOD
Chair