



## Audit Committee (special meeting)

**Wednesday 18 November 2015 at 7.00 pm**  
Boardroom 3/4 - Brent Civic Centre, Engineers Way,  
Wembley HA9 0FJ

### Membership:

#### Members

Mr Ewart (Chair)

Councillors:

A Choudry (Vice-Chair)  
Davidson  
Khan  
Naheerathan  
Nerva

#### Substitute Members

Councillors:

Hylton, Mahmood, McLeish and Thomas

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020 8937 1353 [peter.goss@brent.gov.uk](mailto:peter.goss@brent.gov.uk)

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# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

| Item | Page |
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| <b>1</b> | <b>Declarations of personal and prejudicial interests</b> |  |
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Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.

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| <b>2</b> | <b>Minutes of the previous meeting</b> | 1 - 8 |
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| <b>3</b> | <b>Matters arising</b> |  |
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| <b>4</b> | <b>Exclusion of Press and Public</b> |  |
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The following item is not for publication as it relates to the following categories of exempt information as specified in the Local Government Act 1972 namely:

Information that is likely to reveal the identify of an individual  
Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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| <b>5</b> | <b>Investigation into Finance Services Centre payment processing</b> | 9 - 32 |
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| <b>6</b> | <b>Any other urgent business</b> |  |
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Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 64.

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| <b>7</b> | <b>Date of next meeting</b> |  |
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The next scheduled meeting of the Audit Committee is scheduled to be held on 5 January2016.



Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.



## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Wednesday 16 September 2015 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair), Councillor Khan (Vice Chair) and Councillors A Choudry, Mahmood (alternate for Councillor Naheerathan) and Thomas (alternate for Councillor Nerva)

Apologies for absence were received from: Councillors Naheerathan and Nerva

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

David Ewart (Chair) repeated his previous declaration concerning his former employment with Ealing Council, and declared that he had been in contact with Head of Shared Audit Service (Steve Tinkler) in another role (when he worked with the London Borough of Ealing).

Councillor Choudry declared that he was a member of the Board of Governors of Islamia Primary School.

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

RESOLVED:-

that the minutes of the previous meeting held 23 June 2015 be approved as an accurate record of the meeting.

#### 3. **Matters arising**

Training

The Chair informed the Committee that following members' responses, the training proposals considered at the meeting in March 2015 would be replaced with an in-house training to be delivered by Steve Tinkler (Head of Shared Audit Services). The training which would be tailor made to meet the specific needs of members including treasury management which would accord with CIPFA standards.

Draft Accounts

The Chair referred to the circular sent to all members by Democratic Services about the draft accounts. Members had expressed their satisfaction with the draft accounts presented to the Committee at its June 2015 meeting and as such no questions of detail as to its content had been put to Conrad Hall (Chief Finance Officer).

#### 4. **Deputations**

None.

#### 5. **Islamia School**

The Committee welcomed representatives from Islamia Primary School; Zahid Shaheen (Head teacher) and Mona Rizvi (Vice Chair of Governors) to the meeting. Conrad Hall, Chief Finance Officer, explained that the purpose of inviting the representatives of the school to the meeting was provide them with an opportunity to explain to the Committee the procedures put in place by the governing body of the school to address the concerns arising from the school's nil assurance audit rating.

Members' attention was drawn to the list of areas for which the internal audit of the school resulted in nil assurance rating and the corresponding recommendations to address them. The recommendations included measures to address the following; lack of clarity in the minutes of the Governing Body and its committees to explicitly record decisions and approvals; lack of clarity in the scheme of delegation; lack of evidence of the procurement process for high value and rolling contracts properly documented; income and bank reconciliation; DBS and employment checks; outstanding audit recommendations.

The representatives of the school accepted the recommendations in the report and explained the measures being taken by the Governing Body of the school to address them as set out in the report. They added that the use of the words "not agreed" and "partly agreed" in the school's responses were inaccurate and resulted from a mis-understanding on the part of the Governing Body. They requested that the school be given adequate period of time of say 6 months to carry out the recommendations.

In the discussions that followed, members expressed serious concerns about the school's nil assurance rating and suggested that the Governing Body should receive a dedicated training programme from the Council's Governors' Support team and that officers worked closely with the school Governors to ensure that they were empowered to properly scrutinise all issues outlined in the report.

Steve Tinkler (Head of Shared Audit Services) undertook to carry out a regime of follow up work to ensure that the direction of travel was appropriate and conclude his findings by late November so that an update could be reported to the Committee at its meeting in January 2016. Eamon McCarroll (Operational Director of Finance) offered the services of the Schools Finance Team as an additional support for Islamia Primary School. In bringing the discussions to an end, the Committee endorsed the following recommendations by the Chief Finance Officer;

- (i) The Committee noted the assurances given by the School's Vice Chair of Governors and the Headteacher and noted the support offered by the Finance Team;
- (ii) Officers from the Council's Governors' Support Team will support the Governing Body of Islamia Primary School to fulfil its role more effectively;

- (iii) The Council's Internal Audit will conduct follow up work in late November/early December 2015 and report progress to the Audit Committee at its meeting in January 2016.

## 6. **Members' Declarations**

Conrad Hall (Chief Finance Officer) presented the headline messages from the audit report. He emphasised that under the provisions of the Localism Act 2011, local authorities had a statutory duty to 'promote and maintain high standards of conduct by members and co-opted members of the authority'. This was amplified in Under Part 2 of the Brent Members' Code of Conduct, which required members to register interests by providing written notification to the authority's Monitoring Officer and to register their interests within 28 days of their election or appointment to office and record any changes within 28 days of the member becoming aware of the change or addition. He added that the onus to declare was on each member and that failure to make a declaration was a criminal offence.

Steve Tinkler (Head of Shared Audit Service) drew members' attention to the key areas of weakness which resulted in limited assurance rating and included the following; lack of clarity regarding the requirement for newly elected members to register their interests within 28 days of becoming a member of the council rather than 28 days of the local code being adopted; the failure of some new members to submit their declarations of interests within the prescribed timescale following the 2014 local elections; declarations not always completed in full; poor attendance at the relevant training sessions; change forms not indicating the date of change of member's declarations of interests, gifts or hospitality; and lack of formal guidance available to members in relation to gifts and hospitality.

Members noted that Standards Committee would be consulted on the Council's Code of Practice which would be reported to the full Council meeting in November 2015 for approval and implementation in December 2015. In addition to the mandatory training provided to all members on standards and code of conduct, members on Planning and Alcohol, and Entertainment Licensing Committees were being given specialist and refresher training as a prerequisite to serving on those Committees. Members were also being reminded by the Head of Executive and Member Services about the statutory requirement to complete the declaration forms and the change forms properly and timely.

In bringing the discussion to a close, the Chair noted that all of the recommendations made were being implemented and requested Steve Tinkler to follow it up.

RESOLVED:

that the implementation progress made in addressing the recommendations of the audit be noted.

## 7. **Statement of Accounts 2014/15 and External Auditor's Report**

The Committee considered report ISA260 (“report to those charged with governance” also referred to as the ISA260 report) from the external auditors, KPMG following completion of the audit of the Authority’s accounts. The report is intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work and also provided the findings from the value for money conclusion for the year. Representatives from KPMG; Phil Johnstone (Director) and Steve Lucas (Audit Manager) were in attendance to present the report.

Phil Johnstone summarised the key issues identified in the audit of the Authority’s financial statements and pension fund for the year ended 31 March 2015 and an assessment of the Authority’s arrangements to secure value for money. He informed the Committee that KPMG anticipated issuing an unqualified audit opinion on the Authority’s financial statements by 30 September 2015 and also report that the Authority’s Annual Governance Statement complied with guidance issued by CIPFA/SOLACE in June 2007. Additionally, KPMG anticipated issuing an unqualified audit opinion in relation to the Pension Fund’s financial statements, as contained both in the Authority’s Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.

Members heard that KPMG’s audit identified four significant audit adjustments, the impact of the adjustments was to increase the net worth of the Authority as at 31 March 2015 by £4.1 million but all of which had been adjusted by the Authority. Phil Johnstone continued that the three recommendations relating to Finance Service Centre, school year end estimates and fixed asset values were being addressed by officers. It was noted that in addition to two standard audit risks relating to management over ride of controls and fraudulent revenue recognition, KPMG identified three additional key financial statements audit risks in the 2014/15 External audit plan issued in March 2015. Phil Johnstone concluded that there were no matters of any significance arising as a result of the audit work in those key risk areas.

In response to members’ questions, Phil Johnstone confirmed that the key risk areas identified would not impact on the Council’s accounts and that the Council’s reserve fund was more adequate than other Local Authorities although the position could be influenced by the depth of further financial cuts. He continued that the potential audit difference of £1.3 million relating the Pension Fund that the Authority which was investigating with the Fund Manager, was not material as to affect the accounts. Conrad Hall, Chief Finance Officer clarified the technical basis of how the errors in land and buildings arose and the process of accounting estimation.

RESOLVED:

- (i) that the statement of accounts 2014/15 be approved;
- (ii) that the Chair and the Chief Finance Officer be authorised to sign in approval of the Letter of Representation provided in connection with the audit of the Authority’s financial statements for the year ended 31 March 2015 and appended to ISA260 report.

**8. Internal Audit Progress Report for the period 1 April – 31 July 2015**

Members considered a report which provided an update on the progress against the internal audit plan for the period 1 April 2015 to 31 July 2015 and a summary of counter fraud work for the first quarter of 2015/16. The report was introduced by Steve Tinkler (Head of Shared Audit Service) who gave an update on the progress against the internal audit plan as well as a progress report on delivery status and fraud.

Members noted that progress to date on the 2015/16 internal audit plan was currently below the profiled target for quarter 1, due to the significant work required to finalise the outstanding 14/15 audits, during the quarter. He drew members' attention to the appendix to the report which summarised the assurance reports from the 2014/15 plan and had been finalised since the last meeting of the committee.

The Head of Shared Audit Service added that a number of reports were at a draft report stage and would be reported to the next meeting of the committee in January 2016. He added a number of assignments were currently in progress and it was anticipated that significant improvement in performance would be made during quarter two.

RESOLVED:  
that the progress report be noted.

**9. Strategic Audit Partner Procurement – Update Report**

Members considered a report that provide an update on the procurement activity being undertaken by the London Borough of Ealing to appoint a Strategic Audit Partner to support the services delivered by the Audit and Investigation Shared Service (A&I Shared Service). Steve Tinkler (Head of A&I Shared Service) stated that the vision for the Shared Service was to provide a comprehensive, robust and resilient Internal Audit service to the three London Boroughs of Brent, Ealing and Hounslow. He continued that the Shared Service approach would therefore provide an opportunity for Ealing as the host partner, to explore opportunities to engage and manage a single Strategic Audit Partner on a consolidated basis on behalf of the partnering organisations. He drew members' attention to the criteria for a Strategic Audit Partner as set out in the report.

Conrad Hall, Chief Finance Officer added that in addition to financial savings, the proposal would result in efficiency, better use of audit time and a more resilient service that would meet the challenges posed by the changing public sector landscape and the continuing need for Local Authorities to find financial savings. Phil Johnstone (KPMG) endorsed the progress being made to appoint a Strategic Audit Partner and asked that a further update be provided for the Committee.

RESOLVED:

that the the progress made in respect of the procurement activity commenced to appoint a strategic audit partner to support the Audit and Investigation shared service be noted.

#### 10. **2015/16 Mid-Year Treasury Report**

The Committee decided to take together the 2015/16 mid-year treasury report and the 2014/15 treasury management outturn report. The Chief Finance Officer informed members that the 2015/16 mid-year treasury report updated members on the Council's recent treasury activity including the management of its investment, cash flows and the effective control of the risks associated with those activities. Members heard that the Council's use of internal resources in lieu of borrowing had continued to be the most cost effective means of funding capital expenditure and by reducing both external debt and temporary investments, had lowered overall treasury risk. He advised the Committee that borrowing options and the timing would continue to be assessed in conjunction with the Council's treasury advisor, Arlingclose.

Conrad Hall updated members that the Council received £0.4m in August 2015 regarding the Icelandic Bank Investment, which meant that only £0.2m of the original £10m deposit was outstanding. It was expected that a further distribution would be made but this depends on the result of litigation currently under way regarding a property investment.

In respect of the report on 2014/15 treasury management outturn, Conrad Hall informed the Committee that no debt was restructured during the year and that no lenders exercised options to vary the terms of loans on LOBO (Lender Option, Borrower Option) terms. Members were advised that the Council had borrowed £95.5m under LOBO transactions, all of which were entered into in the period November 2002 to April 2010 and that to re-negotiate these arrangements currently would be very expensive.

RESOLVED:

that the 2015/16 mid-year Treasury report which is also to be submitted to the Council and Cabinet be noted.

#### 11. **2014/15 Treasury Management Outturn Report**

The Committee received a report that updated members on Treasury Management activity and confirmed that the Council had complied with its Prudential Indicators for 2014/15.

See item 10 for preamble.

RESOLVED;

that the 2014/15 Treasury Management outturn report, which would also be submitted to the Cabinet and Full Council and which was in compliance with CIPFA's Code of Practice on Treasury Management (the Code) be noted.

12. **Corporate Risk Register**

The Committee considered a report that presented the council's current Corporate Risk Register. Steve Tinkler (Head of Shared A&I Service) informed members that since the last meeting of the Committee at which the corporate risk register was presented to members, the Risk Management Group has met on three occasions. He drew members' attention to the register attached as appendix 1 which set out the refinements and changes made to the register in respect of corporate risks, Adult Social Care Department, Chief Operating Officer's Department, Children and Young People Department and Regeneration and Growth Department. He continued that the Corporate Risk Register had been updated to align risks with the new senior management structure, particularly those within the Chief Operating Officer's area of responsibility.

In welcoming the report, the Chair asked that further detail questions on the risk register be sent to Steve Tinkler, following the meeting.

RESOLVED:

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

13. **Any other urgent business**

None.

14. **Date of next meeting**

It was noted that the next meeting will take place on Tuesday 5 January 2016.

15. **Exclusion of Press and Public**

RESOLVED:

that the press and public be excluded from the remainder of the meeting as the report to be considered contained the following category of exempt information as specified in the Local Government Act 1972 namely:

"Information relating to the financial or business affairs of any particular person (including the Authority holding that information)."

16. **Brent Financial Services Centre**

Members considered a report from KPMG (external auditors) that detailed the findings of their review of the controls in place in the Financial Services Centre ('FSC') of the London Borough of Brent ('the Council'). The review focussed on the design and operation of controls in place since the implementation of the new Oracle R12 release, which went live in August 2014 and highlighted what they considered to be fundamental weaknesses in the design and operation of the control environment in the FSC.

Members had an extensive discussion on the review report and took note of the measures put in place by the Operational Director of Finance and the Head of A&I Shared Service to address the weakness identified, provide resilient support as well as to prevent future recurrence of these issues.

RESOLVED:

- (i) that all priority 1 recommendations from all future internal audit reports be reported to the Committee;
- (ii) that the Head of Shared A&I Services be authorised to review the priority and assurance ratings including internal audit procedures;
- (iii) that an updated report be submitted to the next meeting of the Committee.

The meeting closed at 10.30 pm

D EWART  
Chair

# Agenda Item 5

By virtue of paragraph(s) 2, 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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