



## Audit Committee

**Wednesday 11 January 2017 at 7.00 pm**  
Board Room 2 - 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:

Long, Hoda-Benn and McLeish

Councillors:

Maurice and Kansagra

**For further information contact:** Nikolay Manov, Governance Officer  
(020) 8937 1348; [nikolay.manov@brent.gov.uk](mailto:nikolay.manov@brent.gov.uk)

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**The press and public are welcome to attend this meeting**

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
<b>1 Declarations of Interests</b>	
Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
<b>2 Deputations (If Any)</b>	
To hear any deputations received from members of the public in accordance with Standing Order 39.	
<b>3 Minutes of the Previous Meeting</b>	1 - 10
To confirm as a correct record, the attached minutes of the meeting of the Audit Committee, held on 22 September 2016.	
<b>4 Matters Arising</b>	
To address any matters arising (if any).	
<b>5 KPMG Progress Report</b>	11 - 14
The report summarises the auditing activities undertaken by KPMG in the period September 2016 to January 2017 and provides an overview of actions to be completed by the next Audit Committee meeting in March 2017.	
<b>6 KPMG Annual Audit Letter</b>	15 - 22
This Annual Audit Letter summarises the outcome from KPMG's audit work at the London Borough of Brent in relation to the 2015/16 audit year. The report also communicates key messages to key external stakeholders, including members of the public.	

**7 External Auditor Appointment** 23 - 36

This report sets out the proposals for appointing the external auditor to the Council/Authority for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**8 Treasury Management Strategy 2017/18** 37 - 54

This report presents the draft Treasury Management Strategy for 2017/18 for consideration by the Committee. The final version of the Strategy, incorporating the views of the Committee, will be included in the budget report to be approved by the Council on 27 February 2017.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**9 Internal Audit & Counter Fraud Progress Report for the period 1 September - 30 November 2016** 55 - 78

This report provides an update on the progress against the internal audit plan for the period 1 September 2016 to 30 November 2016 and also a summary of counter fraud work for the second quarter of 2016/17. The appendix to the report also summarises those reports from the 2016/17 plan which have been finalised since the last meeting of the Audit Committee.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**10 Planning Applications Audit Report** 79 - 100

As requested at the June 2016 Audit Committee the final report regarding the audit of planning applications is presented for consideration by Members. An Officer from the service will attend to answer any questions.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

## **11 Risk Management Arrangements and Strategic Risk Register Update 101-106**

This report presents the Council's current Strategic Risk Register (SRR) and also seeks to update on an on-going review of Risk Management, the full outcome of which will be reported to the Committee meeting in March 2017.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

## **12 Review of Shared Service (to follow)**

## **13 Any Other Urgent Business**

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.

## **14 Date of Next Meeting**

The next meeting of the Audit Committee is scheduled to be held on 20 March 2017.



- 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 Thursday 22 September 2016 at 7.00 pm

#### **PRESENT:**

Mr Ewart (Chair) and Councillors Davidson, Hoda-Benn, Khan, Long and Nerva

**ALSO PRESENT:** Councillor S Choudhary

Apologies for absence were received from: Councillors A Choudry and Naheerathan

#### 1. **Declarations of Personal and Prejudicial Interests**

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

#### 2. **Deputations**

There were no deputations received.

#### 3. **Minutes of the Previous Meeting**

**RESOLVED** that the minutes of the previous meeting, held on 30 June 2016 be approved as an accurate record of the meeting and signed by the Chair.

#### 4. **Matters Arising**

##### **(i) *Corporate Risk Register***

The Chair stated that he had been assured that the Risk Register would be available in time for the next meeting of the Committee.

##### **(ii) *Independent Member of the Audit Committee - Recruitment Update***

Conrad Hall (Chief Finance Officer) gave a brief update on what efforts had been made to attract a suitably qualified Independent Member to serve on the Committee. It was outlined that, as things stood, the Council had not found anyone suitable to fulfil this role but the recruitment process remained ongoing.

##### **(iii) *Complaint Regarding the Appointment of Independent Person(s)***

The Chair invited Fiona Alderman (Chief Legal Officer) to address the Committee with regard to recent concerns from a member of the public on

whether Brent had a properly appointed Independent Person to advise on Code of Conduct matters between May 2014 and May 2016, and if this had impacted upon the treatment of complaints of misconduct made against Members of the Council. The Chair advised that as the complaint was in part based on the wording of the Annual Governance Statement 2015/2016 it was appropriate for this to be addressed as it fell within points 11, 12 and 13 of the Audit Committee's Terms of Reference.

Fiona Alderman outlined that a member of the public had made a number of complaints on this issue, with particular reference to the conduct of the Leader of the Council at a past Employment Tribunal case involving two senior Council Officers. She offered some background information on the process for appointing an Independent Person in line with the provisions of the Localism Act 2011. The Committee heard that, during the time period in question, the Council had been unsuccessful in recruiting a new Independent Person to replace the existing Independent Person, Sola Afuape, before their appointed term was due to end. Fiona Alderman said that the Council had taken the pragmatic view of continuing to consult the previous Independent Person on Code of Conduct matters whilst the post was advertised for recruitment a second time. This was rather than the Council having no Independent Person to refer to until a new appointment was made. The Committee heard that the Council had now appointed Mendip Johal as an Independent Person and Dr Robert Cawley as Independent Member for the Standards Committee. Both of these appointments had recently been approved by Full Council. The Committee also heard that subsequent recruitment campaigns for further Independent Members and Independent Persons were at the shortlisting stage, with a view to further appointments being made by the Full Council at its meeting to be held on 21 November 2016.

On the specific complaint which related to the Leader of the Council, Fiona Alderman outlined that having taken advice on this issue, from both the Chief Executive and Sola Afuape, her view as Monitoring Officer remained that the detail of this complaint fell outside of the Members Code of Conduct and did not disclose a potential breach of the Code and thereby it was not required to be referred to the Council's Standards Committee.

In response to an additional question from the member of the public who raised the complaint, Fiona Alderman clarified that, with regards to the Annual Governance Statement, there was a distinction to make between Independent Members and Independent Persons for consultation on Code of Conduct issues. She reiterated that the Council's course of action between the timeframe in question was to continue to use the services of the Independent Person who had advised the previous Monitoring Officer whilst the recruitment for a new Independent Person was ongoing. As such, the Chair agreed that there was no specific need to amend the Annual Governance Statement 2015/2016 or significant governance issue to be addressed.

Responding to questions from Members on what the measures of best practice were for the average tenure of an Independent Person, Fiona Alderman stated Independent Persons would generally be appointed for a

minimum of two years. She highlighted that she was developing measures for the Council to have a rolling program of recruitment for these positions so that there were not wholesale changes to Independent Persons occurring at the same time. She mentioned that this would help ensure that the Council was not placed in any future potential scenario of not having any Independent Person(s) to consult.

**RESOLVED that the Chief Legal Officer:**

- (i) Formally writes to the member of the public who raised the complaint with a full answer to their concerns; and
- (ii) Develop guidance on best practice for appointing Independent Persons, to be shared with members of the Committee.

**5. Internal Audit Report - Torah Temimah Primary School**

Vanessa Bateman (Interim Head of Audit and Investigation) introduced the report which included the findings and recommendations arising from a recent audit of internal controls at Torah Temimah Primary School. She highlighted that the internal audit had raised actions in every key area of internal controls. It was noted specifically that 11 priority one recommendations, 15 priority two recommendations and five priority three recommendations had been put forward. The Committee heard that the overreaching areas of weakness included the school's overall financial process; governance; failure to comply with financial rules and regulations alongside concerns on staff employment status particularly relating to employment contracts of non-teaching staff. Vanessa Bateman then outlined that the school was continuing its engagement with Council Officers and had developed its own action plan based on the report's recommendations since the agenda for this Committee was published.

Rabbi Yitzchak Freeman (Head Teacher of Torah Temimah) and Uri Kaplan (Chair of the Governing Body) addressed the Committee and began by wishing to place on record that the audit had been conducted with the highest degree of professionalism and that it had been a pleasure to work with the Council Officers involved. He stated that the school completely accepted the findings of the report and was pleased that it was recognised that, despite the concerns, there was no suggestion of any impropriety or misappropriation of funds. The Committee heard that Torah Temimah believed that these issues related to procedural problems rather than any individual wrongdoing.

Rabbi Yitzchak Freeman continued by giving some background information to Members on the situation at the school which he believed had contributed to the problems highlighted in this report. He outlined that Torah Temimah was a small school with limited expertise on financial matters and had relied on the expertise of its previous Bursar for six years. It was mentioned that whilst there were growing concerns about performance the school had found it difficult to recruit high calibre staff in this area in order to make any required changes.

Upon receiving the Council's nil assurance audit option report Rabbi Yitzchak Freeman emphasised the steps that the school took, and were continuing to take, to address this situation including appointing two new interim Bursars in the short

term. Whilst these interim appointments had now ended, the school's long term plan was to divide up aspects of the Bursar role and outsource elements where necessary. This will include: Rabbi Yitzchak Freeman taking on more strategic aspects of the Bursar role whilst working with an independent company to take up auditing functions; taking on additional staff to manage the paperwork; revising the school's day to day accounting procedures; working closely with the bank to manage the school's four main accounts and working with Brent's Human Resources (HR) Department more closely to solve employment related issues. Uri Kaplan also added that since the report, the school had also taken on more Finance Governors and that, whilst the action plan could be considered challenging, the school hoped to have full assurance to report in the near future.

The Chair pointed out that in the Council's action plan for the school there were a number of recommendations with an imminent implementation date of 30 September and questioned whether the school was on course to achieve these. Rabbi Yitzchak Freeman responded saying that school was likely to achieve a lot of them, but would be unlikely to be able to achieve all of them. He stated that the ones likely to be missed were due to the slow process of implementing them, which was unfortunately out of the school's control. The specific example was given regarding the employment contracts for non-teaching staff. Rabbi Yitzchak Freeman outlined that any issues relating to the implementation dates on the Council's action plan had been picked up and addressed in the school's own action plan which had been developed subsequently.

Members questioned how the governance arrangements at the school could be better utilised and whether the school had an audit committee alongside a financial planning committee. In response, Rabbi Yitzchak Freeman said that the school did not have a specific audit committee as it fell within the terms of reference of the present arrangements for the school's finance committee. He stated that in light of this report, the finance committee at the school was now becoming much more involved in the school's operations and taking a much more forensic approach to its financial affairs. It was also mentioned that the school now had an associate member on its finance committee with significant expertise in this area which the school could draw upon.

Members also questioned in a more broad sense what lessons there were for the wider education system in Brent on this, particularly for smaller schools, as it was not the first time issues such as this had arisen before the Committee. Vanessa Bateman responded stating that the issues highlighted in this case were facing a lot of London Boroughs and it was up to the Council to consider the risks that could be prevalent in this Borough and address any problems. She proposed that there could be a significant role for training schools on the importance of good audit and governance arrangements as many shared the same risks. There was also a discussion around schools across the Borough potentially sharing expertise and resources on governing audit and finance issues. She made clear that the audit team at the Council would be addressing the lessons to be learned from this case.

**RESOLVED that:**

- (i) The main issues highlighted in the report following the nil assurance audit opinion and the actions to be taken by the School to address them, be noted: and



- (ii) The school's updated action plan based on the recommendations within the report be shared and circulated to Members via the Chief Finance Officer.

## 6. **Shared Service Update**

Conrad Hall (Chief Finance Officer) introduced the report and outlined the intention for a review on the shared service arrangements currently in place for the delivery of the Council's internal audit service. The shared service function was currently hosted by the London Borough of Ealing, who jointly provided audit services to the London Borough of Hounslow. He stated that the Committee had been kept updated on the progress of the shared service but it had always been the intention for a short, focused review after the arrangement had been in operation for one year. The aims of the review would be to clearly establish the most appropriate way for the Council to move forward with regards to the shared service. He noted that he had been working closely with the Director of Policy, Performance and Partnerships on the resources for carrying out the review.

In response to a Member's question on the savings that had emerged from the shared service arrangement Conrad Hall stated that the key reasoning for entering the shared service arrangement had not been to deliver significant savings. He added that it was a factor and there had been some savings of about £75,000. He maintained that the review's goal was for the Council to come to a conclusion on the right way forward for the shared service arrangements. Conrad Hall specifically mentioned that the review would assess success against the arguments made for entering the shared service when it was introduced such as whether economies of scale had been realised plus whether the flexibility provided by a shared service had fundamentally improved the Council's internal audit functions.

### **RESOLVED that:**

- (i) The proposed review, be noted; and
- (ii) The progress of the shared service review be submitted by the Chief Finance Officer before the next meeting of the Audit Committee.

## 7. **Local Government Ombudsman's Investigation into a Complaint Against London Borough of Brent -Ref 14019 234**

The Committee received a report detailing the Local Government Ombudsman report issued against the London Boroughs of Brent and Ealing on 8 August 2016. The report related to the Housing Needs Service's and Brent Housing Partnership's (BHP) handling of a BHP tenant's request for urgent rehousing due to domestic violence.

The Chair stated that the Committee should focus on considering how the complaint was handled, rather than the full specifics of the case.

Phil Porter (Strategic Director Community Wellbeing) and Martin Stollery (Principal Complaints Service Officer) were present to advise the Committee on the report. Phil Porter emphasised that the Council took full responsibility for the errors highlighted. He stated that the case showed that the Council complaints process

had worked and the issues raised by the LGO had already been highlighted and dealt as a result of the complaints process. He also stated that it showed the Council needed to deal better with sensitive domestic violence cases. He specifically agreed with the points included in the report made by Dr Jane Martin on why it was in the public interest to publish this report. He said it demonstrated the need for a closer and more effective working relationship between different Councils' Housing Needs services in dealing with vulnerable individuals to ensure events like this did not happen again.

Phil Porter continued that he believed that the case showed there had been a lack of accountability in the service and this case showed customer services failings alongside the faults in dealing with a sensitive domestic violence transfer case. He outlined that the Council would complete the actions required by the report but added that he believed these were the bare minimum of what the Council should be addressing. He advised the Committee that there were wider structural changes and service improvement measures which were taking place within the Housing Needs service at the moment, which are focused on improving customer care, and a big part of improving customer care is taking responsibility for solving problems whatever they may be, not just making referrals.

Responding to questions from members on the extent of training and supervision provided to Officers in dealing with domestic violence transfer cases, Phil Porter stated the problems identified were more than just a Housing Service Needs training issue.. It is crucially important that people take responsibility for solving problems . He believed this was demonstrated notably in this case through the length of time it took to chase a response from the London Borough of Ealing once the case had been referred to them. He added that this was tied with training and a need to understand the broader policies, but also relied on strong line management driving a customer focused culture. He reiterated that this is being addressed in the service improvement measures being developed by the Council.

Martin Stollery added that the Complaints Service had been open in that mistakes that were made. He noted that the last Local Government Ombudsman report against the Council was back in 2013, and therefore it was still rare for the Council to be investigated. In response to this the Chair asked whether the Council was moving to a position where all complaints were satisfactorily dealt with internally before needing to be referred to the Ombudsman. Phil Porter concluded that the Council needed to admit its mistakes early and rectify them early. He said that it should be viewed as a failure for anything of this nature in future to be referred to the Ombudsman.

Additional questions were raised by Members on specifics to this case within a wider discussion of the Council's policies for dealing with domestic violence transfer cases. It was suggested that an additional report on this should be considered by the Community and Wellbeing Scrutiny Committee at a future meeting.

**RESOLVED that:**

- (i) The decision of the Local Government Ombudsman, be noted;
- (ii) A suggestion be made that a report be considered by the Community and Wellbeing Scrutiny Committee, which addressed the issues identified in the

complaint report: how the housing needs services responded (working closely with partners) to issues of particular vulnerability such as domestic violence; and

- (iii) A report providing an overview of any current cases referred to and on how the Audit Committee should deal with any cases referred to the Local Government Ombudsman be considered at the next meeting of the Committee.

## 8. **Statement of Accounts 2015/16 and External Auditor's Report**

Ben Ainsworth (Head of Finance) introduced the report into the work being completed by the Council's external auditors, KPMG, in assessing the 2015-2016 financial accounts. The Committee heard that KPMG had identified seven audit adjustments and three significant risks during the course of its work, details of which were set out in the report.

Ben Ainsworth firstly drew the Committee's attention to the £117.3 million increase in Property, Plant and Equipment assets. He mentioned that this large readjustment figure had arisen due to the Council being able to establish a more accurate valuation on Council dwellings. Conrad Hall (Chief Finance Officer) added that Council was required to put a valuation of Council dwellings but, without a full revaluation, accuracy for this could be difficult and valuations could be different to what they actually turned out to be. He noted that the Council had its five-yearly revaluation of Council dwellings between April and September this year which allowed for greater accuracy and had resulted in this readjustment.

Ben Ainsworth continued by advising the Committee that the full revaluation of Council dwellings also had a net impact in reducing the usable reserves by £24.8 million. He outlined that this was connected with the adjustment policy on Minimum Revenue Provision. The Committee was advised that there had been a change in policy relating to this, as previously much of this payment had been front loaded but this was no longer viewed to be an affordable method. Ben Ainsworth also mentioned that some of the additional changes to current assets and liabilities were connected to a change in output VAT.

Phil Johnstone (Director, KPMG External Audit) introduced KPMG's role in this process in providing an unqualified opinion on the Local Authority's financial accounts and Pensions Fund and ensuring that the Council complied with CIPFA/SOLACE guidance. He emphasised the quality of the support that had been provided by the Council's finance team. He also drew the Committee's attention to the headline audit adjustments, including the £24.8 movement between useable and unusable reserves as mentioned by Ben Ainsworth and the overall adjustment of the Council's dwellings. He went on to discuss the three key risks which had been identified in the audit process, with more detail included in Section 3 of the KPMG report. These were specifically identified as: Oracle General Ledger and Purchase Ledger; the fair value of Property, Plant and Equipment assets and pension assets and liabilities. It was also noted that there was little to report on the other two risks which were identified as part of External Audit Plan 2015/2016 and mentioned to the Committee at the 23 March meeting.

In addition, Phil Johnstone mentioned the conclusions reached on whether the Authority had conducted its business in order to secure Value for Money (VFM). He reported that the Authority had made proper arrangements to secure VFM but that two specific risks had been identified. These were with regards to financial resilience caused by reduced central government funding and the development of governance and accounting arrangements for the Better Care Fund.

It was noted that in terms of completion, this was the final stage of the audit process but that KPMG was still waiting on the final version of the report for any amendments that needed to be made. Phil Johnstone also mentioned that KPMG were not yet in a position to issue the Audit Certificates, because they were still investigating six objections to the accounts from the public. He explained that five of these objections were with regard to the exit package which was issued to the Council's former HR director and the final objection related to LOBOs (Lender Option Borrower Options) Loans.

A discussion ensued in response to a question from a Member of the Committee about the language of the report identifying decreasing central government funding as being a significant risk. The argument was made that the Council's financial planning had been informed by a knowledge of the Revenue Support Grant decreasing, and thus the risk was lower than was implied in the report. Phil Johnstone stated that although central government funding was only one component of the Council's funding it remained a significant risk at least for the next year because there remained a degree of uncertainty into how Local Authorities would fully adjust.

It was requested that it be put on record that the Committee expressed its thanks to both the Finance team and KPMG for their balanced approach and thoroughly detailed report.

**RESOLVED that:**

- (i) The key issues and recommendations in the report, be noted;
- (ii) The corrected audit adjustments, also be noted;
- (iii) The statement of accounts, be approved;
- (iv) The letter of representation to KPMG, also be approved, and
- (v) The Chair be authorised to sign these on the Committee's behalf.

9. **Internal Audit and Counter Fraud Progress Report for the period 1 April – August 2016**

Vanessa Bateman (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 from the start of the 2016 financial year.

### ***Internal Audit Progress***

Vanessa Bateman began by outlining that much of the first quarter's work had been on completing the Plan from 2015/16, a summary of which was attached as Appendix 1 to the report.

Members were directed to tables one and two on page 130 of the agenda pack for an overview of the projects that had since been added to the original plan and projects which were to be delayed. Vanessa Bateman also outlined that of the 56 reports to be delivered in the current plan, 13% had been delivered. She added that there would also be a sustained effort to improve the number of priority one and priority 2 recommendations which were currently at 'status unknown'. It was highlighted that 53 of 92 total recommendations had this status. The Chair commented that he was glad to hear that this was going to be addressed as the numbers of 'status unknown' recommendations was currently unacceptable. Vanessa Bateman assured the Committee that these figures would be improved by the time of the next meeting.

### ***Counter Fraud Progress***

Vanessa Bateman gave an overview of the three different types of fraud which were addressed in the report: internal, housing tenancy and other external. She outlined that understanding about these types of fraud within the organisation needed to go further. She mentioned that there were plans to refresh the policy statement for anti-fraud and corruption which should assist with this. A big theme of this updated statement would also be to pursue closing the loopholes which were used to commit fraud. The Committee heard that particularly on Housing Tenancy Fraud and working on behalf of Residential Social Landlords the team was achieving good outcomes. She concluded that close working across the counter fraud and audit teams at the Council would continue to be pursued. It was noted that future progress reports would include an update on the Audit and Investigation team's working relationship with PWC, detailing any change between the previous relationship with Mazars.

The Chair thanked the audit and counter fraud teams for their work thus far.

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

#### **10. 2016/17 Mid-Year Treasury Report**

Gareth Robinson (Head of Finance) introduced the report which provided updates on recent treasury activity. He spoke on the global economic background over the past six months with growth rates slowing across most developed economies with the exception of the US. He noted that it was expected that growth rates would remain low and lower for long in the near future. Gilt yields were specifically mentioned as being at a very low level presently.

Gareth Robinson continued that since the European Union Referendum, the interest rate that Council received on money market funds had fallen and was likely to drop further. He stated that this ongoing economic uncertainty meant that the

Council's prudent treasury approach, which was currently in place, was likely to remain in place.

The Committee was advised that treasury management was driven by considerations of the levels cash and levels of debt that the Authority had. On debt levels, Gareth Robinson mentioned that the Council's debt levels were £417million, a £1.6million drop from the last report but that the situation was stable. He noted that the Council always ensured that its loans were affordable. On cash levels, he stated that there had been an increase but that this was slightly misleading due to a Housing Benefit payment last year which had affected the cash balance. Members' attention was directed to point 3.20 of the report which outlined that the average cash balance until 31 August 2016 was £184million. The Committee was also advised that the Council had received a further £0.4million from its Icelandic Investment Bank, which meant that £0.2million of the £10million deposit was still outstanding.

Members questioned whether the Council's approach to the future Capital Programme was restricting options on funding capital expenditure. Conrad Hall (Chief Finance Officer) mentioned that the finance team was currently looking buying in some technical expertise on borrowing options and how this could be financed in the future. The Chair also mentioned that it was very important for the finance team to continue to monitor future developments regarding LOBOs (Lender Option Borrower Options) because of sheer amount of money that was involved.

The Chair thanked Gareth Robinson for his report.

**RESOLVED** that the Committee note the mid-year Treasury report.

The meeting closed at 9.05 pm

D EWART  
Chair



# External audit update report

London Borough of Brent  
External audit 2016-17

11 January 2017

# External Audit Progress Report

## Since the last meeting of the Audit Committee in September 2016 we have...

- Signed our unqualified audit opinion on the financial statements for 2015/16 on 30 September 2016;
- Issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 30 September 2016;
- Issued our opinion on the Council's Whole of Government Accounts stating that they are consistent with the audited financial statements;
- Accepted six objections to the 2015/16 accounts, written to the Council to obtain their views on the objections and are currently reviewing the Council's response;
- Prepared our Annual Audit Letter, which is attached to this report, for publication on the Council's website;
- Issued our unqualified reports on the Teachers' Pension Return and the Pooling of Housing Capital Receipts Return;
- Issued our qualified audit certificate on the Housing Benefit Subsidy claim on 6 December 2016, six days after the deadline. The main qualifications are similar to 2014/15 and relate to the calculation of a claimants self employed income for use in determining the amount of housing benefits payable. Full details will be contained in our Grants Report which will be discussed with officers and presented to the next Audit Committee meeting. The potential impact on the value of the claim is minimal.

## Ahead of the next meeting of the Audit Committee in March 2017 we will...

- Issue our grants report which we will present to the next Audit Committee;
- Complete our initial planning for your 2016/17 audit which will include meetings with Carolyn Downs and Conrad Hall; and
- issue our draft audit plan for 2016/17 for approval at the Audit Committee.

## We ask the Audit Committee to:

- **NOTE** this progress report.

### Contacts

**Phil Johnstone**

*Director*

020 7311 2091

*Philip.Johnstone@kpmg.co.uk*

**Steve Lucas**

*Senior Manager*

020 7311 2184

*Stephen.lucas@kpmg.co.uk*





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# Annual Audit Letter 2015/16

London Borough of Brent

—

October 2016

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The contacts at KPMG in connection with this report are:

**Philip Johnstone**  
Director, KPMG LLP

Tel: +44 (0)20 7311 2091  
Philip.Johnstone@kpmg.co.uk

**Steve Lucas**  
Senior Manager, KPMG LLP

Tel: +44 (0)20 7311 2184  
Stephen.lucas@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Brent in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<b>VFM conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 30 September 2016.. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<b>VFM risk areas</b>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>We focused our work on the Authority's financial resilience and found that despite ongoing cost pressures in areas such as temporary accommodation and adult social care, the Authority delivered to its 2015/16 budget. The budget for 2016/17 was set, with a 3.99% increase in Council Tax. At the budget setting meeting in February 2016, initial plans and projections for the 2017/18 budget were presented with £14 million of the estimated £22 million of saving required already identified demonstrating the forward looking financial planning. Our overall view is that the Authority's approach to financial planning and financial resilience remains sound.</p> <p>We also considered the arrangements for the Better Care Fund (BCF) where we found a section 75 pooled budget agreement was in place with NHS Brent CCG and delivery against this was monitored monthly by the BCF Executive Steering Group which includes senior officers from the Authority and the CCG. There are clear leads identified over who is responsible for delivering individual projects. Reports against progress and ongoing priority areas are presented to the Health and Wellbeing Board at regular intervals.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 30 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.</p>

<p><b>Financial statements audit</b></p>	<p>We received a substantially complete draft set of financial statements on 24 June 2016 in advance of the DCLG deadline of 30 June 2016.</p> <p>During the audit there were six adjusted audit differences impacting on the balance sheet:</p> <ul style="list-style-type: none"> <li>• three relating to Property, Plant and Equipment whose value ranged from £2.9 million to £45.9 million whose impact was to increase the value of Property, Plant and Equipment by £41.9 million;</li> <li>• two relating to the spilt between debtors, creditors and provisions, ranging from £7.9 million to £10.8 million which had no overall impact on the net assets of the Authority; and</li> <li>• one adjustment that transferred £24.8 million from usable to unusable reserves.</li> </ul> <p>There were no audit adjustments that impacted on the General Fund or HRA reserves</p> <p>There was one unadjusted audit difference of £1.02 million that would have reduced the value of Property, Plant and Equipment and the Capital Adjustment Account by £1.02 million.</p>
<p><b>Annual Governance Statement</b></p>	<p>We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.</p>
<p><b>Pension fund audit</b></p>	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. We also issued an unqualified opinion on your Pension Fund Annual Report.</p>
<p><b>Whole of Government Accounts</b></p>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. There were a number of audit adjustments relating to other Government bodies and following this we reported that the Authority's pack was consistent with the audited financial statements.</p>
<p><b>Recommendations</b></p>	<p>We did not raise any high priority recommendations as a result of our 2015/16 audit work. We did make one recommendation relating to building sufficient time into the process to allow for a detailed review of working papers with the accounts to be completed prior to presentation to the Chief Finance Officer. The Authority has responded positively to this.</p>

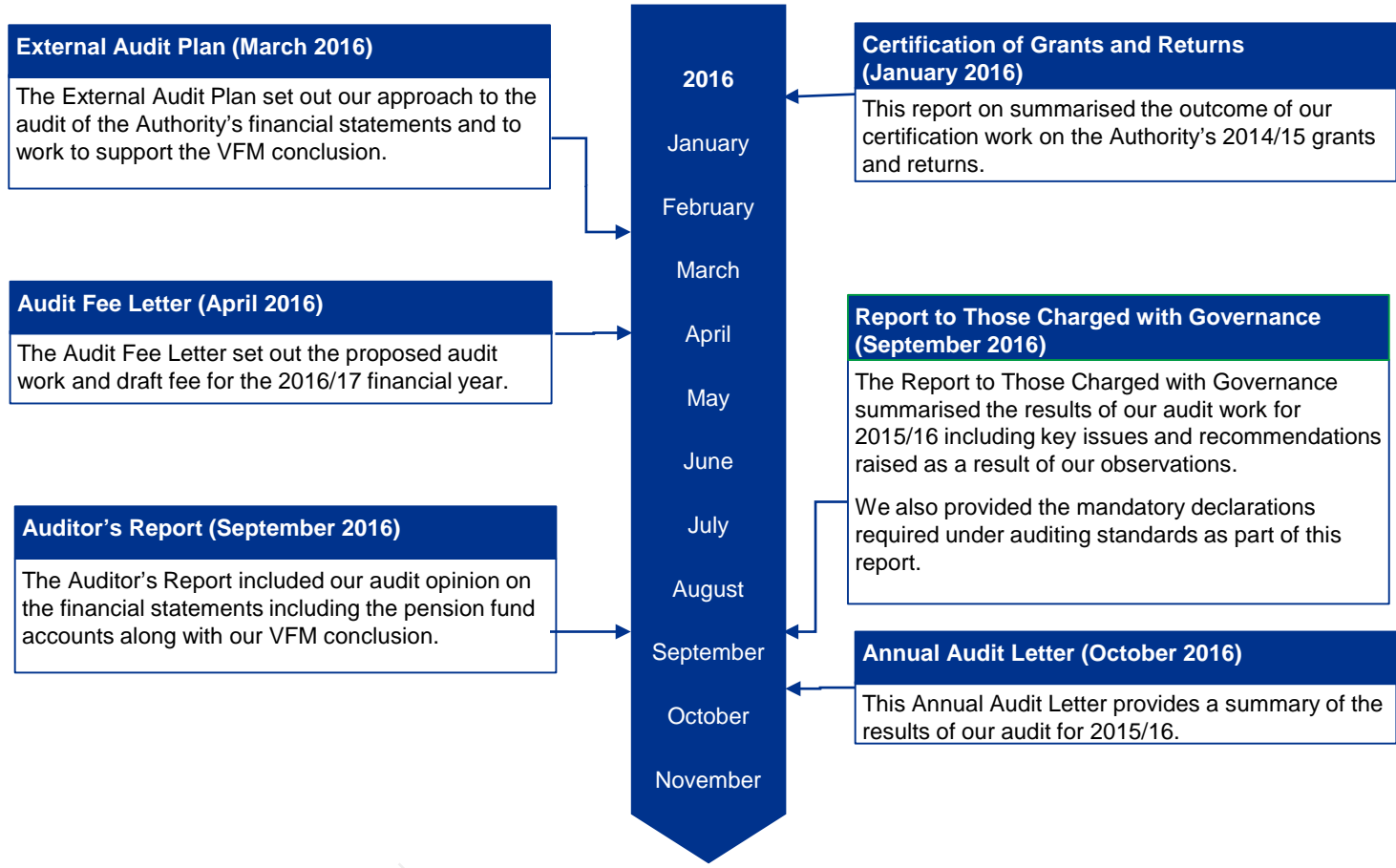
# Headlines (cont)

<b>Certificate</b>	In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate as we have received six objections to the accounts from local electors.
<b>Audit fee</b>	<p>Our audit fee for 2015/16 was £199,590 (2014/15: £266,120) excluding VAT. This compared to the planned fee of £199,590. There will be an additional audit fee for the year as we need to complete additional work on the six objections received. Further details are contained in Appendix 2.</p> <p>Our fee for the Pension Fund was £21,000 (2014/15: £21,000) excluding VAT. This was in line with the planned fee.</p>

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

Page 20





# Appendix 2: Audit fees

Page 21

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

### External audit

Our fee for the 2015/16 audit of the Authority is currently £199,590, in line with the planned fee of £199,590. However, as we need to complete additional work on the six objections we have received, there will be an additional fee for this work. This fee will be agreed with the Chief Finance Officer but will be subject to final determination by Public Sector Audit Appointments Limited.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in December 2016.

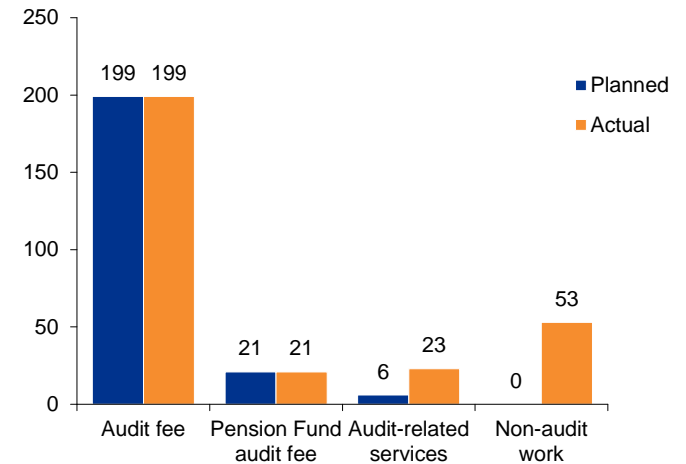
### Other services

We charged £6,000 (2014/15 £6,000) for additional audit-related services for the certification of the for the Teachers' Pension Return and Pooling of Housing Capital Receipts Return which are outside of Public Sector Audit Appointment's certification regime. We also completed an audit related review of the Financial Services Centre in May 2015 for £17,000.

We have provided two non audit-related services to the Authority this year for a forensic review of a system error and fraud awareness training. The total value of these services was £53,651

This work was not related to our responsibilities under the Code of Audit Practice.

External audit fees 2015/16 (£'000)





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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 <p><b>Brent</b></p>	<p><b>Audit Committee</b> 11 January 2017</p> <p><b>Report from the Chief Finance Officer</b></p>
<p>Wards affected: ALL</p>	
<p><b>External Auditor Appointment 2018/19</b></p>	

## 1. Introduction

- 1.1. This report sets out the proposals for appointing the external auditor to the Council/Authority for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 1.2. A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council/Authority than any procurement undertaken locally. More specifically:
  - The audit costs are likely to be lower than if the Council/Authority sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
  - Without the national appointment, the Council/Authority would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
  - PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council/Authority;

- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council/Authority going forward into the medium and long term.
- 1.3. If the Council/Authority is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, it needs to take the decision at this meeting to enable it accept the invitation by early March 2017.

## **2. Recommendations**

- 2.1. The Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

## **3. Background**

- 3.1. The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.2. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.3. In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the

Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA

3.4. PSAA is inviting the Council/Authority to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council/Authority's auditor.

3.5. The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council/Authority to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below;
- The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

- 3.6. The Council/Authority's current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council/Authority's external audit fees were £298k in 2015/16.
- 3.7. The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.
- 3.8. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council/Authority's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.9. Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, as described immediately below, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

## **Other Options**

- 3.10. If the Council/Authority did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council/Authority itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council/Authority's external audit.
- 3.11. Alternatively the Act enables the Council/Authority to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act and the Council/Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 3.12. Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

## **The invitation**

- 3.13. PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided in an Appendix to this Report.
- 3.14 In summary the national opt-in scheme provides the following:
- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;

- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

### **The way forward**

3.14. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council/Authority (meeting as a whole). The Council/Authority then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.

3.15. PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017

## **4. Financial Implications**

4.1 The principal risks are that the Council/Authority fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in



the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

- 4.2 There is also a risk that current external fees levels could increase when the current contracts end in 2018.
- 4.3 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 4.4 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

## **5. Legal Implications**

- 5.1. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council/Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council/Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council/Authority is a local Council/Authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council/Authority under those arrangements;
- 5.2. Section 12 makes provision for the failure to appoint a local auditor: the Council/Authority must immediately inform the Secretary of State, who may direct the Council/Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council/Authority.
- 5.3. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This

power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

**6. Contact Officers**

Conrad Hall

Chief Finance Officer

[conrad.hall@brent.gov.uk](mailto:conrad.hall@brent.gov.uk)

27 October 2016

**Email:** [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk)

Carolyn Downs  
Brent London Borough Council  
Brent Civic Centre  
Engineers Way  
Wembley Middlesex HA9 0FGJ

Copied to: Conrad Hall, Chief Finance Officer, Brent London Borough Council  
Fiona Alderman, Chief Legal Officer, Brent London Borough Council

Dear Ms Downs

### Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

Yours sincerely



Jon Hayes, Chief Officer

## Appointing an external auditor

### Information on the national scheme

#### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

## **Auditor appointments and independence**

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

## **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

## Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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 <p><b>Brent</b></p>	<p><b>Audit Committee</b> 11 January 2017</p> <p><b>Report from the Chief Finance Officer</b></p>
<p>For Information <span style="float: right;">Wards Affected: ALL</span></p>	
<p style="text-align: center;"><b>Treasury Management Strategy 2017/18</b></p>	

## 1. Summary

- 1.1. This report presents the draft Treasury Management Strategy for 2017/18 for consideration by the Committee. The final version of the Strategy, incorporating the views of the Committee, will be included in the budget report to be approved by the Council on 27 February 2017.

## 2. Recommendations

- 2.1 The Audit Committee considers and comments on the draft strategy.

## 3. Detail

- 3.1 The Strategy will set the framework for Treasury Management activity in 2017/18 and includes:
- Current levels of borrowing and investments
  - Interest rate outlook
  - Approach to future borrowing
  - Approach to future investments
- 3.2 The draft strategy is set out in Appendix 1.

## 4. Financial Implications

- 4.1 The Council's external interest budget for 2016/17 is £23.3m, with budgeted investment income of £1.3m. The minimum provision (set aside for the repayment of debt) is £10.6m. The setting of the capital financing budget for 2017/18 will form part of the overall budget decision to be taken by the Council on 27 February 2017.

**5. Legal Implications**

5.1 None directly arising from this report.

**6. Diversity Implications**

6.1 None directly arising from this report.

**7. Staffing Implications**

7.1 None directly arising from this report.

**8. Background Papers**

Annual Treasury Strategy – Report to Full Council as part of the Budget Report – March 2016.

**9. Contact Officer Details**

Gareth Robinson, Head of Finance 020 8937 6567

**Conrad Hall**  
**Chief Finance Officer**

## **Appendix 1**

# **TREASURY MANAGEMENT STRATEGY STATEMENT**

## **Introduction**

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services requires local authorities to determine their Treasury Management Strategy Statement (TMSS).
2. As per the requirements of the Prudential Code of Practice, 2011, the Authority has adopted the CIPFA Treasury Management Code and reaffirmed its adoption at its annual Budget meeting, most recently on 3 March 2014.
3. The purpose of this TMSS is, therefore, to set out the following:
  - i. Treasury Management Strategy for 2017/18
  - ii. Annual Investment Strategy for 2017/18

The approved Strategies will be implemented from the date of approval by the Council.

4. The Authority had borrowed £416m of long term debt and had £201m invested at 30 November, 2016 and, therefore, has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is central to the Authority's Treasury Management Strategy.

## **Capital Financing Requirement**

- 5 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with usable reserves, are the core drivers of the Authority's Treasury Management activities.
- 6 At 30 November, 2016 the Authority's had £416m of long term debt and £201m of investments. These are set out in further detail below.

## Existing Investment & Debt Portfolio Position

Table 1

	30/11/2016 Actual Portfolio £m	30/11/2016 Average Rate %	31/3/2016 Average rate %
<b>External Borrowing:</b>			
PWLB – Maturity	288	5.01	5.01
PWLB – EIP	32	2.56	2.56
LOBO Loans	96	4.93	4.82
<b>Total Gross External Debt</b>	416	4.80	4.76
<b>Investments:</b>			
Market Deposits	181	0.38	0.52
Money Market Funds	20	0.33	0.47
<b>Total Investments</b>	201	0.37	0.51
<b>Net Debt</b>	215		

- 7 The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. The Authority's current strategy is to maintain borrowing at the lowest level possible unless interest rate prospects present a clear case for taking long term borrowing ahead of immediate requirements. The Council's CFR is greater than its borrowing. However, the increased emphasis on imaginative capital investment to transform the financial position will require some amendments to the detail of this strategy, although the core principle of minimizing borrowing costs will remain.

### Interest Rate Forecast

- 8 There is significant uncertainty in the marketplace regarding the mid to long-term interest rates but the Council's Treasury Management advisers, Arlingclose, forecast that official UK Bank Rate will remain at 0.25% for the immediate future. However, 30-year gilt yields and PWLB rates have risen by 0.6% in the last three months. Therefore, the market is already pricing in inflation into the longer term interest rates. However, due the uncertainty surrounding Brexit and the Presidential Election in the US, few market commentators see an early rise as likely. Officers will continue to monitor developments with the advice of Arlingclose but giving due regard to other published information.

## **Borrowing Strategy**

- 9 The Council currently holds a significant cash balance at present and this seems likely to continue for the next two or three years at least. This occurs in a situation in which longer term rates are significantly in excess of short term rates. If borrowing is undertaken in this environment there will be a net cost of holding this money until it is used, sometimes called the “cost of carry”. As borrowing is often for longer dated periods (anything up to 60 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority’s wider financial position. Therefore the Council does not intend to borrow in advance of need to fund its activities.
- 10 The Authority will adopt a flexible approach to any future long-term borrowing in consultation with, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:
- Affordability;
  - Maturity profile of existing debt;
  - Interest rate and refinancing risk;
  - Borrowing source.

## **Sources of Borrowing and Portfolio Implications**

- 11 In conjunction with advice from Arlingclose, the Authority will keep under review the following borrowing sources:
- Internal balances
  - PWLB
  - Other local authorities
  - European Investment Bank
  - Leasing
  - Structured finance
  - Capital markets (stock issues, commercial paper and bills)
  - Commercial banks
- As the Council did not foresee an immediate need to borrow, and as it was aware of the risks of joint and several liability, it did not take any part in setting up the Local Government Bond Agency (LGBA). The option of joining the LGBA or issuing bonds in our own name, are continually under review.
- 12 The Council has no immediate need to borrow externally, due to our current cash balances, so it can avail itself of borrowing. Furthermore, the cost of carry means use of shorter dated borrowing and repayment by Equal Instalments of Principal (EIP) is more cost effective. This increases volatility in the debt portfolio in terms of interest rate risk but is counterbalanced by its lower interest rates and that borrowing costs are closer to investment returns. It also maintains an element of flexibility to respond to possible future changes in the requirement to borrow. The Authority’s exposure to shorter dated and variable rate borrowing is kept under regular review.
- 13 The Authority has £80.5m exposure to LOBO loans (Lender’s Option Borrower’s Option) of which £40.0m of these can be “called” within 2017/18. £15m of these were transformed into regular fixed rate loans in 2016/17.

- 14 LOBOs are so-called because lenders can exercise their rights at set times to amend the interest rate on the loan. At that point, the Borrower can accept the revised terms or reject them and repay the loan without penalty. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion which is compensated for by a lower interest rate being paid. This risk is mitigated by the fact that the Council's current cash holdings mean that any repayment could be accommodated by reducing deposits in a relatively short time and that it would be financially advantageous to do so at current interest rates.
- 15 Any LOBOs called will be discussed with Arlingclose prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted. It is considered a significant possibility that some LOBOs may be called over the next few years due to the need to comply with Basle III regulations for banks in 2019.

### **Debt Rescheduling**

- 16 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.
- 17 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans have adversely affected the scope to undertake worthwhile debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:
- Reduce investment balances and credit exposure via debt repayment
  - Align long-term cash flow projections and debt levels
  - Savings in risk adjusted interest costs
  - Rebalancing the interest rate structure of the debt portfolio
  - Changing the maturity profile of the debt portfolio
- 18 The possible benefit of undertaking a restructuring needs to be carefully evaluated as it depends on how the repayment is resourced. Officers will monitor the portfolio together with Arlingclose and remain alert for opportunities where the potential savings justify the risks involved. Borrowing and rescheduling activity will be reported to the Cabinet and Council in the Annual Treasury Management Report and the mid year report.

### **Annual Investment Strategy**

- 19 In accordance with investment guidance issued by the Department for Communities and Local Government (CLG), and best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, followed by the yield earned on investments. However, the likely rise in inflation presents a further risk to the Council in so far as current investment yields are likely to be below the rate of inflation. This means that the value of these investments is declining as

time goes on. Though not clearly visible, this will progressively erode the purchasing power of Treasury investments.

- 20 The graph in Annex D shows a comparison between Brent's portfolio and that of Arlingclose's other clients. Brent's portfolio has a very low risk compared with many of the others, but also a lower yield than would be expected for that risk. Brent currently uses quite a narrow range of the instruments which are available, chosen because they are short term and with highly rated counterparties, principally the UK government, local authorities and major UK banks. Additional yield can be offered either in return for higher inherent risk or reduced liquidity (i.e. longer maturities or lower marketability). However, this risk can be mitigated in a number of ways:
- Diversification over a range of counterparties;
  - Seeking collateral or additional security for capital invested;
  - Focusing on capital strength or sound business models.
- 21 Corporate bonds, for example, can give significantly higher yields than our current deposits but give exposure to risks from economic, commercial and operational difficulties. Diversification would involve investing small amounts with a large number of companies or buying diversified Funds. Seeking additional security could involve exchanging our deposit for known high credit quality assets, or a claim on a pool of assets. Seeking capital strength would involve investing in companies with high levels of assets in relation to liabilities or a strong fixed asset base, or whose business is not subject to marked fluctuations in activity or profitability. Annex C compares some readily available options.
- 22 The Council has a borrowing portfolio of £416m and a Capital Financing Requirement of £584m. This £168m difference generates 0.37% of interest. If borrowed for 25 years on Equal Instalment of Principal terms, it would cost 2.55%. Together, this equals a total 2.92% return, representing a saving of £4.9m to the Council, but also an opportunity to invest.
- 23 Brent currently holds a historically high level of cash which has risen over the last three years. A significant part of this is related to unspent capital grants and Section 106 contributions, which are already reducing. However, there are other elements that will grow, such as CIL. The Capital programme has increased in scale and the relative ease of direct purchasing of assets (PRS and land) means that spend is more likely to meet ambitious targets than in prior years. Therefore overall, the Council will continue to have significant balances invested for at least the next couple of years.
- 24 Having an appropriate lending list of counterparties, remains critically important to protecting Brent's investments. A list of extremely secure counterparties would be very small, and the limits with each would be correspondingly high. This would expose the authority to a risk of an unlikely but potentially large loss. This arises because the arrangements for dealing with banks in difficulty now require a loss to be imposed on various categories of liabilities of the banks to allow the bank to recapitalize itself and continue in business (sometimes referred to as bail in).

- 25 Local authority deposits could be exposed to a loss of up to 40%, beyond which the government would be able to give support. As a consequence, the Council has taken steps to reduce exposure to banks, by shortening maturity limits, by investing principally in instruments which can be sold in the event of warning signs being noticed and by diversifying. The Authority and its advisors remain alert for signs of credit or market distress that might adversely affect the Authority. However, The Council wishes to maintain the option of using a wider range of instruments which are not subject to bail in, where appropriate, and this would include the instruments referred to in Annex C. All of these would need a thorough vetting by officers and the Council's Treasury advisors, Arlingclose.
- 26 Investments are categorised as Specified or Non-Specified within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They are also of a high credit quality as determined by the Authority and are not investments that needed to be accounted for as capital expenditure. Non-specified investments are, effectively, everything else. Investments for more than a year remain non-specified until they mature.
- 27 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

**Table 2: Specified and Non-Specified Investments**

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and Building Societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	x
Other Money Market Funds and Collective Investment Schemes	✓	✓
Debt Management Agency Deposit Facility	✓	x



- 28 Registered Providers (Housing Associations and Registered Social Landlords) have been included within specified and non-specified investments for 2017/18. Any investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose prior to investing.
- 29 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). Within these criteria the Chief Finance Officer (CFO) will have discretion to accept or reject individual institutions as counterparties on the basis of any information which may become available. The countries and institutions that currently meet the criteria for investments are included in Annex A. The Council uses the lowest rating quoted by Fitch, Standard and Poor or Moody, as recommended by CIPFA.
- 30 Any institution will be suspended or removed should any of the factors identified above give rise to concern, and caution will be paramount in reaching any investment decision regardless of the counterparty or the circumstances. Credit ratings are monitored continually by the Authority, using the advice of Arlingclose on ratings changes, and action taken as appropriate.
- 31 The Authority banks with National Westminster Bank (Natwest). At present, Natwest does not meet the Authority's minimum credit criteria (its Moody's rating is Baa1). While it does not give cause for immediate concern, its status is being monitored and the necessary actions should it deteriorate have been considered. In the meantime, as far as is consistent with operational efficiency, no money is being placed with Natwest and credit balances in the various Council accounts are being kept to a minimum level. This is why the Pension Fund, in the midst of restructuring its investments, recently agreed to make use of the Treasury function to loan to other organisations.

### **Investment Strategy**

- 32 With short term interest rates expected to remain low for many years, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns.
- 33 Following on from the banking crisis of 2008/09 and government interventions to prevent the collapse of the banking system, there has been an increase in legislative restrictions on the extent and manner in which public money can be used in the event of an impending bank failure. In future, governments will be unable to invest public money to rescue banks in difficulty until a significant contribution has been made by those who have certain kinds of investments in the bank concerned, a process called "Bail in". These include deposits by those deemed to be in a position to assess the risk involved, including local authorities.
- 34 Secured deposits of various kinds are not included in bail in provisions. Some other forms of deposits are, but can be sold if felt to be at risk. It is likely that the Council's preferred instruments in lending to institutions without some kind of government guarantee will increasingly be in the form of secured or marketable instruments.
- 35 In order to diversify a portfolio largely invested in cash, investments will be placed with a number of approved counterparties over a range of maturity periods.

Maximum investment levels with each counterparty will be set by the Chief Finance Officer to ensure that prudent diversification is achieved.

- 36 Money market funds (MMFs) will be utilised but good treasury management practice prevails, and whilst MMFs provide good diversification, the Authority will also seek to mitigate operational risk by using at least two MMFs where practical. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In addition, each Fund will be limited to a maximum deposit of £10m and no more than half the Council's deposits will be placed with MMFs.
- 37 The investment strategy will provide flexibility to invest cash for periods of up to 370 days in order to access higher investment returns, although lending to UK local authorities can be for up to 5 years. The upper limit for lending beyond a year is £20m. In practice, lending for more than one year will be only to institutions of the highest credit quality and at rates which justify the liquidity risk involved. Marketable instruments may have longer maturities, though the maturity will be considered in conjunction with the likely liquidity of the market and credit quality of the institution.
- 38 Annex C summarises the main features of some instruments which the Council does not use at present but would like to reserve the option to use in the future. Before using any of these, officers would take advice from Arlingclose and adopt suitable guidelines to manage risk from exposure to the new instruments.
- 39 Collective Investment Schemes (Pooled Funds):  
The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in pooled funds will be undertaken with advice from Arlingclose. The Authority currently has no investments in Pooled Funds at present, but may make prudent use of them in the future.
- 40 Investment Policy:  
Treasury Management in the Public Services: Code of Practice (the Code) was updated in November 2011, with a greater focus on risk management and significance of capital security as the Council's primary objective in relation to investments.
- 41 The Council maintains, as the cornerstones for effective treasury management:-
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
  - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

### **Policy on Use of Financial Derivatives**

- 42 The Authority does not currently use standalone financial derivatives (such as swaps, forwards, futures and options) and will only do so where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative

counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy. Where schemes contain an embedded derivative they will be subject to evaluation as part of the appraisal of the particular scheme.

- 43 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and any relevant foreign country limit.
- 44 The Authority will only use derivatives after seeking expertise, receiving a legal opinion and ensuring officers have the appropriate training for their use.

### **Policy on apportioning Housing Revenue Account (HRA)**

- 45 Local authorities are required to recharge interest expenditure and income attributable to the HRA in a way which is fair to the HRA without detriment to the General Fund. The guidance is non-specific, so the Council is required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that local authorities outline this policy in their TMSS.
- 46 As of 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Individual loans or parts of loans have been allocated to the HRA, on the basis of achieving the same long term rate as that which applied to the General Fund at the self financing date. In the future, new long-term borrowing will be assigned in its entirety to one pool or the other, allocating the costs and benefits to each accordingly.
- 47 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow results in a notional element of internal borrowing. This balance will be assessed over the year and interest charged to the HRA at an appropriate rate for short term borrowing. The HRA will also hold reserves and balances which will be invested with the Council, and interest will be paid on identified balances at a rate which recognises that any investment risk is borne by the General Fund.

### **Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

- 48 The CFO will report to the Audit Committee, Cabinet and Full Council on treasury management activity as follows:
- Annually, against the strategy approved for the year.
  - A mid-year report on the implementation of strategy and main features of the year's activity to date.

### **Training**

- 49 CIPFA's Code of Practice requires the CFO to ensure that all members with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Arlingclose delivered a training session for members on 19 November, 2016. Staff regularly attend training courses, seminars and conferences provided by Arlingclose, CIPFA and others. Relevant staff are also encouraged to study for professional qualifications from CIPFA and

other appropriate organisations.

### **Treasury Management Advisers**

- 50 The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:
- Credit advice
  - Investment advice
  - Technical advice
  - Economic & interest rate forecasts
  - Workshops and training events
  - HRA support
  - Other matters as required

The Authority maintains the quality of the service with its advisers by holding quarterly meetings and tendering periodically.

**Annex A****ANNUAL INVESTMENT STRATEGY 2017/18****List of institutions which meet the Council's credit worthiness criteria:**

<b>Jurisdiction</b>	<b>Counterparty</b>
UK	Lloyds/Bank of Scotland plc
UK	Barclays Bank plc
UK	Close Brothers Ltd
UK	Goldman Sachs International Bank
UK	HSBC Bank plc
UK	Abbey National/Santander (UK) plc
UK	Coventry Building Society
UK	Leeds Building Society
UK	Nationwide Building Society
Australia	Australia and NZ Banking Group
Australia	Commonwealth Bank of Australia
Australia	National Australia Bank Ltd
Australia	Westpac Banking Corporation
Canada	Bank of Montreal
Canada	Bank of Nova Scotia
Canada	Canadian Imperial Bank of Commerce
Canada	Royal Bank of Canada
Canada	Toronto-Dominion Bank
Denmark	Danske Bank a/s
Germany	FMS Wertmanagement
Germany	Kreditanstalt fuer Wieferauf
Germany	Landesbank Hessen-Thuringen
Germany	Landeskred Baden-Wuerttenburg
Germany	Landwirtschaftliche Rentenbank
Germany	Landesbank Sachsen-Anhalt
Netherlands	Bank Nederlandse Gemeenten
Netherlands	Cooperatieve Rabobank UA
Netherlands	ING Bank NV

Singapore	DBS Bank Ltd
Singapore	Overseas-Chinese Banking Corporation
Singapore	United Overseas Bank Ltd
Sweden	Nordea Bank AB
Sweden	Svenska Handelsbanken a shs
Switzerland	Credit Suisse AG
USA	JPMorgan Chase Bank NA

The list above represents the institutions which meet the criteria at the time of preparation of the strategy. It does not include institutions to whom we are prepared to lend on the basis of sovereign or quasi sovereign status. The Authority's Chief Finance Officer may introduce new names which meet the criteria from time to time and may adopt more restrictive limits on maturity or value as seems prudent. The Council may also lend any amount to any UK national or local government body for up to 5 years. However, in light of the reductions of central government funding, additional credit worthiness criteria will be required, so smaller bodies with weaker balance sheets would be unlikely to meet the Council's rigorous standards.

An operational list of institutions which are approved to take deposits from the Council will be prepared and circulated to dealing and approving Officers from time to time. A protocol will also be maintained describing how investments will be chosen and managed.

Group Limits - for institutions within a banking group, the authority may lend the full limit to a single bank within that group, but may not exceed the limit for all group members. All direct investments with a bank or group will be subject to that limit.

## **Annex B**

### **Non-Specified Investments**

#### **Instrument**

Call accounts, term deposits and Certificates of Deposit (CDs) with banks, building societies and local authorities which do not meet the specified investment criteria (on advice from Arlingclose)

Deposits with registered providers

Gilts

Bonds issued by multilateral development banks

Sterling denominated bonds by non-UK sovereign governments

Money Market Funds rated below AAA and Collective Investment Schemes

Corporate and debt instruments issued by corporate bodies

Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573. These would be capital expenditure.

The Authority will hold up to a maximum of £30m in non-specified investments at any time, which may all be in one category subject to individual counterparty limits.

## Annex C

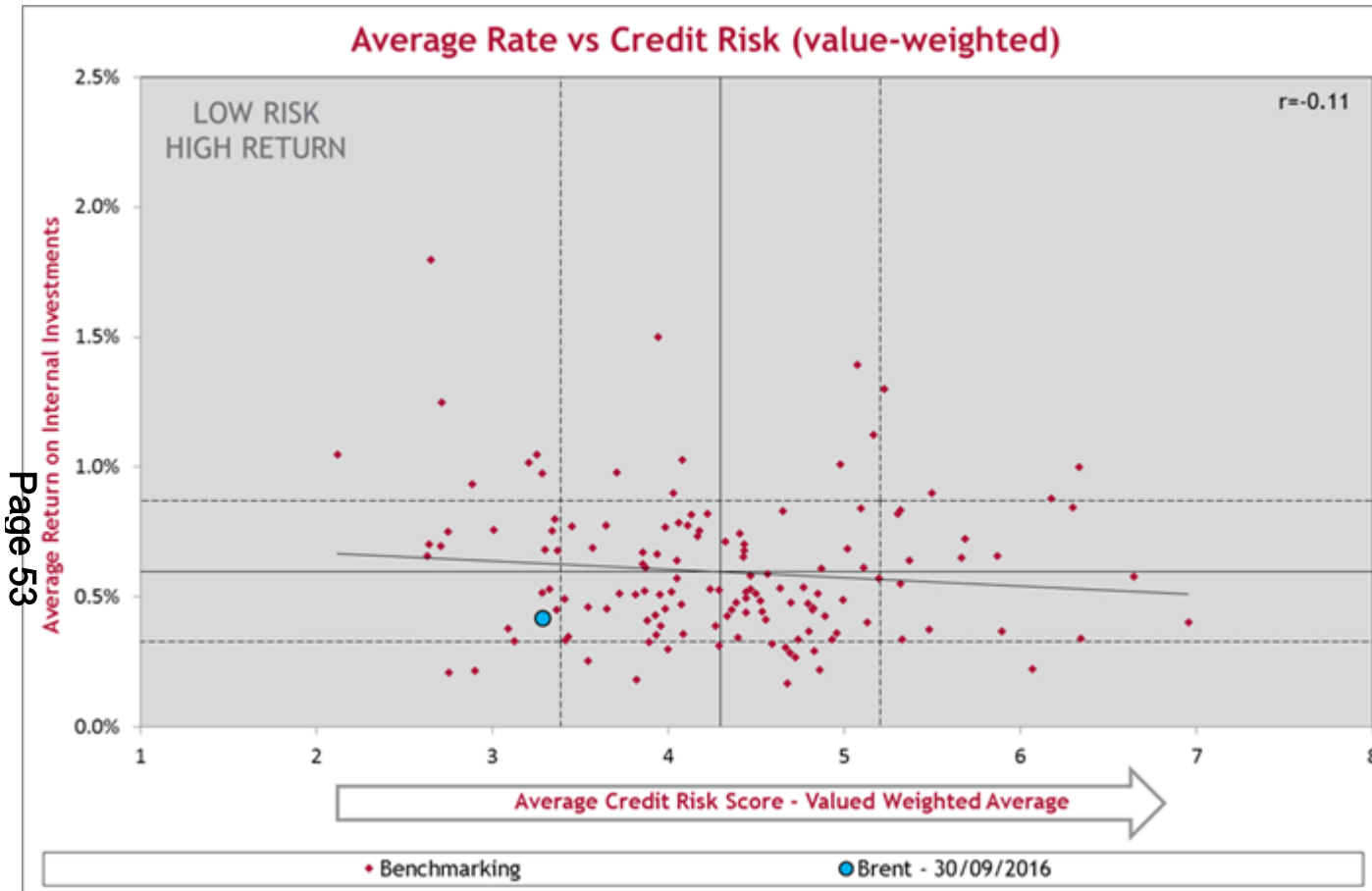
### Other available options

All of the instruments are exempt from the risk of being bailed in if the institution borrowing the Council's money is eligible for bail in.

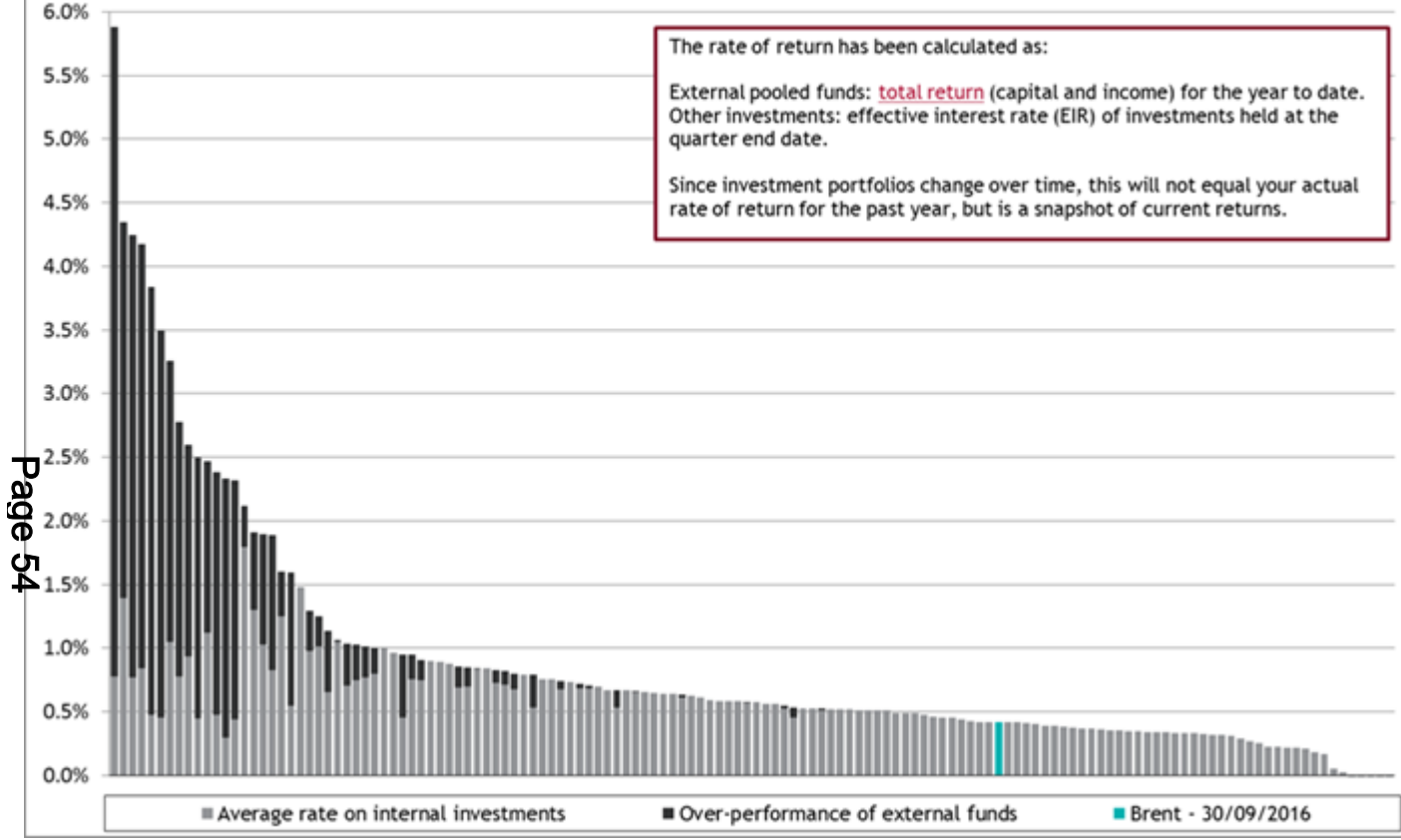
Instrument (and suitable time scale)	Features	Advantages	Disadvantages
Short bond or cash plus funds 6 months – 2 years	Purchase shares Cash invested in a diversified portfolio of liquid securities	Improved yield from various sources Redeemable asset	Volatility low but value could be below purchase price for some periods
Repurchase arrangement (repo) 1 month – 1 year	Loan to counterparty secured by exchange of collateral as security repayment (usually government stocks)	Offers improved yield by allowing extension of maturity limits	Not easily marketable, so would normally be held to maturity
Covered bonds 3 months – 3 years	Bond guaranteed by nomination of a pool of assets as security. Bond will have its own credit rating	Offers improved yield by allowing extension of maturity limits and use of counterparties who would be excluded by their own rating	Marketable but the market price would fluctuate so should be bought with the intention of holding to maturity
Corporate bonds 1 month – 2 years	Loan to company in marketable form. Security is the company's credit rating and assets	Improved yield because of lower liquidity and economic risk. Corporate capital structures are often more secure than financial counterparties	Risks of a different nature to financial counterparties: more exposed to market and economic risk
Corporate bond funds 6 months – 3 years	Purchase shares Cash invested in a diversified portfolio of corporate borrowing	Diversification means reduced risk Wide range of yields depending on liquidity and risk appetite	Higher level of volatility so may have to be prepared to wait to liquidate investment on favourable terms
Property Funds 5 years	Purchase shares Cash invested in a diversified portfolio of properties	Yields can be high by Treasury standards	Can be very volatile and may need long periods to be able to achieve value




Annex D



### Total Return on Total Investment Portfolio (Internal plus External Funds)



 <p><b>Brent</b></p>	<p><b>Audit Committee</b> 11 January 2017</p> <p><b>Report from the Chief Finance Officer</b></p>
For Information	Wards Affected: ALL
<p><b>Internal Audit &amp; Counter Fraud Progress Report for the period 1 September – 30 November 2016</b></p>	

## 1. Summary

- 1.1. This report provides an update on the progress against the internal audit plan for the period 1 September 2016 to 30 November 2016. The appendix to the report also summarises those reports from the 2016/17 plan which have been finalised since the last meeting of the Audit Committee. The report also provides a summary of counter fraud work for the second quarter of 2016/17.

## 2. Recommendations

- 2.1. That the Audit Committee notes the progress made in delivering the 2016/17 Internal Audit Plan and the associated counter fraud work.

## 3. Detail

- 3.1. The Internal Audit Plan for 2016/17 is delivered by a small in house team, currently led by an interim Head of Audit & Investigations, and the Strategic Partner, PriceWaterhouseCoopers (PwC).
- 3.2. Since September there has been increased momentum in the delivery of the audit plan as relationships develop and knowledge of the organisation by both the interim Head of Investigations and new Strategic Partner increases.
- 3.3. Monthly liaison meetings to discuss plan delivery take place and ad hoc meetings are diarised in between to resolve issues or discuss audits. A strategic meeting is planned on a quarterly basis and this will be attended by the Chief Financial Officer. Recent feedback from Corporate Management Team regarding the service and their requirements have been shared and incorporated into future plans.
- 3.4. The key points to note with regards to progress for the current year are:
- There are fifty six internal audit projects included within the agreed 2016/17 plan (excluding follow up and advisory work). Work has commenced on thirty six of these.
  - Eleven audits were removed and twelve audits were added to the original plan.

Details are in Tables 1 and 2 below.

- Twenty five internal audit projects have been completed to draft or final stage. Sixteen of them have an audit opinion associated with them. Six have a substantial opinion and ten limited opinions. This ratio is of concern, but less so than appears on the face of it, as audit work has deliberately been focused on areas of known or suspected weakness in order to enhance the control environment. Of the remaining nine projects, five relate to grant and account certifications and the remaining four to consultancy work which do not have an assurance rating attached.

**Table 1– Projects Added to original plan**

<b>Audit</b>	<b>Reason</b>
Planning Applications	At the request of management
IT Risk Diagnosis	Risk assessment undertaken by Strategic Partner to inform the audit needs relating to IT Risk.
Assurance Mapping	Exercise undertaken by Strategic Partner to identify gaps in assurance to feed into the 2016/17 plan and also inform 2017/18 audit planning process.
Kilburn Square TMO (BHP)	At the request of BHP Management
Essential User Permits	At the request of Management
Planning Applications – Investigation	At the request of Management
Rogue Landlords Grant Certification	Grant Certification work
Data Protection (BHP)	At the Request of BHP Management
Pensions Review	At the Request of Management
IT Governance	High Risk audit areas identified by the Risk Diagnostic. All three will be scoped two will be completed in 2016/17 and the third will be early in 2017/18 along with some of the Medium Risk audits.
3 <sup>rd</sup> Party Management Information	
IT Disaster Recovery	

**Table 2 – Audits Removed From the Plan**

<b>Audit</b>	<b>Reason</b>
Asset Management Strategy	Assurances available to Management from alternative sources.
Remote Access & Home Working (IT)	Replaced by the audit areas identified as High Risk via the Diagnostic exercise.
Application Audit	
Client Index (IT)	
Information Security	
One Oracle Application	
Virtual Schools – for Looked After Children	Change of Risk Rating.
ICO Follow Up	Followed up by Information Governance Team.
Democratic Services	Change of Risk Rating.
John Billam Centre	Assurances available to Management from alternative sources.
Parking Enforcement	Replaced by Review of Essential User Permits for Staff and Contractors

A summary of progress is set out in table 3 below:

**Table 3 – Delivery Status as at 30 November 2016**

<b>Delivery Status</b>	
Total number of reports to be delivered in current plan	56
Number of draft/final reports/certifications issued to date	25
% of reports issued to date	45%

- 3.5. Members will note that progress to date on the 2016/17 internal audit plan is currently below the profiled target at the end of November. However the expectation is that the plan will still be delivered within the year. Allocation of audits has been reviewed some resources to undertake pro-active fraud work rather than risk based systems audits has enabled the investigations team to support delivery of the audit plan and some additional audits have been allocated to PwC, whilst remaining within the original

budget for year.

#### 4. Follow Up of 2015/16 Audit Recommendations

- 4.1. The Public Sector Internal Audit Standards requires the Chief Audit Executive (the Head of Audit & Investigation) to establish a process to monitor and follow up management actions to ensure that they have been actively implemented or that senior management have accepted the risk of not doing so.
- 4.2. A database of all previous internal audit recommendations has been established on the Council's InfoStore system. Managers have access to this, and self-certify progress against recommendations, which are then subject to periodic sample checks by internal audit. Most organisations have a broadly similar system for tracking progress against previous audit recommendations.
- 4.3. Of the 105 Priority 1 and 2 recommendations arising from 2015/16 audits and due to be implemented by 30 November 2016, 68 had either been fully or partly implemented 6 had yet to be implemented and 3 were no longer applicable due to changes within the relevant service. We were unable to determine the status of 28 recommendations because responsible officers had still to update the relevant details on Infostore. Table 4 sets out the summary.

**Table 4 – Status of 2015/16 Priority 1 and 2 Recommendations**

Total Number of Recommendations	Total	Implemented	Partly Implemented	Not implemented	N/A	Status Unknown
Priority 1	15	12	0	0	3	0
Priority 2	90	54	2	6	0	28
<b>Total</b>	<b>105</b>	<b>66</b>	<b>2</b>	<b>6</b>	<b>3</b>	<b>28</b>

#### 5. Internal Fraud

- 5.1. Internal fraud refers to fraud committed by employees, agency staff and staff in maintained Schools. For the purposes of this report, “fraud” includes instances of theft, fraud, misappropriation, falsification of documents, undisclosed conflicts of interest and serious breach of financial regulations. Activity for the second quarter of the year to date is shown in table 5 below:

**Table 5 – Internal Fraud 2016/17 (Q2)**

	2016/17 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
<b>Internal</b>					
Open Cases b/fwd	22	33	22	11	21
New Referrals	4	5	10	10	42

Closed Cases	11	15	10	10	31
Fraud / Irregularity identified (as summarised below)	4	5	2	7	9
Dismissal	1	2	0	0	3
Resignation/Officer Left	0	2	1	2	5
Warning	1	1	0	5	1
Other positive outcome (e.g. system improvement, overpayments only)	2	N/A	1	N/A	
Open cases carried c/f	15	23	22	33	22

5.2. We previously reported that more internal fraud cases were brought forward from quarter 4 of 2015/16 compared to the quarter 4 of 2014/15 and that the reason for this was a result of joint working with the DWP's Single Fraud Investigation Service (SFIS) on internal related NFI cases (i.e. staff benefit fraud matches). The liaison with SFIS has increased and more progress is being made on joint working. It is important to note that the Council's Investigation Team is now required to wait for SFIS to determine action on each case following their own investigations prior to these being passed to Brent's Audit & Investigations Unit.

5.3. Of the four internal fraud cases in which fraud or irregularities were identified details are as follows:

- In one case an officer was dismissed for breach of Financial Regulations (misuse of Zip Cars);
- In another case an officer from a school was given a final written warning for failing to declare a conflict of interest;
- One case was in relation to external fraud that was closed down in Q2 and linked to three internal disciplinary cases which had been previously dealt with; and
- The remaining case was in relation to the alleged misuse by an officer of the Blue Badge system. The outcome of which was that there was no evidence to support the allegations.

5.4. There is currently a definitive plan in place, led by the new Interim Head of Audit & Investigations to re-invigorate various aspects of anti-fraud work. This will include proactive work on Housing fraud, Procurement fraud, a new anti-fraud awareness programme and targeted internal fraud pro-active exercises including Zipcar usage and sickness absence

## 6. Housing Tenancy Fraud

- 6.1. Recovery of social housing properties has a significant impact upon the temporary accommodation budget. The Audit Commission have estimated that the average value, nationally, of each recovered tenancy is £18,000\*. The £18,000 figure is notional and some neighbouring Councils (e.g. Harrow) use a much greater figure based on an estimate of actual temporary housing costs over a three year period. Another National report in 2014 recommended using £75,000 per property recovered. This was based on an average three year fraudulent tenancy and included temporary accommodation for genuine applicants, legal costs to recover property, re-let cost and rent foregone during the void period between tenancies. The Audit & Investigations Unit will do more work to benchmark and recommend the most figure to use in the next report. Caseload information is set out in table 6 below.

**Table 6 – Housing Fraud 2016/17**

Housing Fraud	2016/17 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/fwd	160	182	121	150	174
New Referrals	90	118	140	73	250
Closed Cases	111	112	101	76	314
Fraud Found	13	17	13	21	73
Recovered Properties	11	13	10	18	63
Applications Refused	NIL	1	0	4	2
Property Size Reduced (Rehousing)	2	2	1	1	5
Home Loss payment recovered	NIL	NIL	0	0	0
Right To Buy	NIL	1	2	2	3
<b>Value of properties recovered*</b>	198,000	234,000	£180,000	£324,000	£1,134,000
<b>Value of Right to Buy Discount Prevented**</b>	NIL	103,900	£207,800	£177,700	£90,000
<b>Value of Property Size Reduced</b>	36,000	36,000	£18,000	£18,000	£281,600
Open cases carried c/f	139	188	160	147	121



Cases with Legal for Possession/Prosecution	34/3	22	33	23	18
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\*Notional value of recovered properties is £18,000

\*\* Actual amount of discount stopped

- 6.2. Housing Fraud figures are on track to meet the annual target of 51 - currently 26 cases have been identified as fraud, these case include all fraud relating to social housing e.g. Right to Buy and property size reductions. 118 referrals were received in total from London & Quadrant Housing Association as part of a proactive exercise.
- 6.3. Since Quarter 4 of the 2015/16 financial year there has been a greater emphasis placed on the prosecution of housing fraud and Proceeds of Crime Act (POCA) and Profit Orders rather than just recovery of the tenancy.
- 6.4. With regards to Right to Buy (RTB) fraud, there has been a greater emphasis on tackling RTB fraud since 2015/16. The Team is currently liaising closely with the Right to Buy Team to develop a more pro-active anti-fraud approach, which is anticipated to be in place by early 2017. Right to Buy fraud is deemed to be a significant risk to Council's housing stock.

## 7. Other External Fraud

- 7.1. This category includes all other external fraud/irregularity cases, such as blue badge, direct payments and council tax discounts.

**Table 7 – Other External Fraud 2016/17**

Other External Fraud	2016/17 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/fwd	106	12	57	18	56
New Referrals	30	66	83	9	99
Closed Cases	64	15	34	15	62
Fraud / Irregularity	3	5	4	0	10
Prosecution	1	NIL	0	0	0
Warning / Caution	1	2	1	0	3
Overpayment Identified	NIL	3	1	0	7

Open cases carried c/f	72	63	106	12	57
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- 7.2. The main reasons for the increases in open cases brought forward in Q2 of 2016/17 compared to the same quarter in 2015/16 is as a result of proactive work undertaken in the areas of Council Tax Reduction Scheme and No Recourse to Public Funds.
- 7.3. In Q4 of the 2015/16 financial year some work was carried out to explore a more workable approach to tackling Council Tax Reduction Scheme (CTRS) fraud. 82 cases have since been reviewed in detail. Due to complexities with DWP's remit to investigate Housing Benefit /Council Tax Benefit fraud and systems enhancements which are needed in CTRS administration, only a handful of suitable cases are being progressed to interview/sanction. This area of work has been put on hold until recommendations with the CTRS administration has been implemented to comply with legislation.
- 7.4. With regards to No Recourse to Public Funds (NRPF), the Team have developed a referral stream with the NRPF Team. However, new verification procedures within the NRPF has meant that more onus is being placed on clients to provide supporting documentation and as such, it is not expected that there will in future be any a significant increases referrals.
- 7.5. The Team also identified some weaknesses in controls around information security relating to CTRS data and recommendations have been made to address these.
- 7.6. A Blue Badge pro-active operation was undertaken in October 2016 as part of a joint working agreement with Parking Enforcement and the Police. Four badges were seized on the day and we are currently investigating an additional two cases involving counterfeit badges.

## **8. Financial Implications**

- 8.1. There are no specific financial implications associated with noting this report. However the effectiveness of financial controls and fraud investigation can clearly have financial implications.

## **9. Legal Implications**

- 9.1. None

## **10. Diversity Implications**

- 10.1. None.

## **11. Background Papers**

- 11.1. None.

## **12. Contact Officer Details**

Vanessa Bateman – Interim Head of Audit & Investigations, Civic Centre, 7<sup>th</sup> Floor.

Telephone – 07881 284151

CONRAD HALL  
Chief Finance Officer



**Internal Audit**

**2<sup>nd</sup> Internal Audit & Counter Fraud  
Progress Report – 2016/17**

**London Borough of Brent**

**January 2017**

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## Executive Summary

### Introduction

This report sets out a summary of the work completed against the 2015/16 and 2016/17 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised. .

### Summary of Work Undertaken


Final Reports issued since the last meeting of the Committee in September 2016 are as follows:

- Homelessness Prevention and Temporary Accommodation
- Planning Applications (Application Review)
- Business Continuity
- Watling Gardens TMO (BHP)
- Complaints Management (BHP)

## Detailed summary of work undertaken

### FULL / SUBSTANTIAL ASSURANCE REPORTS: 2016/17

Only those audits for which Substantial Assurance was given are indicated here.

Audit	Assurance Opinion and Direction of Travel
<b>BHP</b>	
Compliants Management (BHP)	

## LIMITED ASSURANCE REPORTS – General Audits

For all Limited Assurance reports, we have included a brief rationale, together with details of any **priority 1/ High Priority** recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective. The only exception is for any BHP reports, for which the details are reported separately to the BHP Audit Committee.

### Homelessness Prevention

This review considered the effectiveness of the Council’s controls and processes in relation to the “front door” elements of the provision of homelessness services, with a particular emphasis on considering the eligibility assessments and the prevention of homelessness through the design of the control framework in place for the new “Find Your Home” scheme. The review also considered controls in place to support temporary accommodation allocations.

The review identified core control weaknesses in the homelessness application assessment process where system enforced controls to ensure review and enforce segregation of duties were not operating effectively. The review of cases in advance of accepting the homelessness duty is a key control to mitigate fraud and error and ensure that services are only provided to eligible and appropriate service users. The assessment process is the gateway to securing homelessness services from the Council and there are currently significant deficiencies in the controls in place to identify fraud and error in the assessment process.

Management are taking positive, proactive steps to reduce demand for services through dedicating more resources to homelessness prevention and the Find Your Home initiative and this is progressive and innovative when compared to other local authorities and addresses one of the key underlying strategic challenges facing the service.


The service is currently transitioning to a new operating model to support greater emphasis on preventative service provision. We identified that more focussed performance management, more intelligent use of systems and business process mapping/analysis would assist in supporting the service during this transition period to ensure that core service provision does not deteriorate and assist in the achievement of service objectives going forward.

**1 High Priority; 4 Medium Priority and 2 Low priority recommendations were raised as a result of this audit. The high priority recommendations is set out below.**



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p><b><u>Cases Accepted Without Required Approval</u></b>                      Quality assurance case audits will be performed for at least 80% of applications on a monthly basis by Team Leaders. Senior Management will conduct a quarterly case audit of at least 12</p>	<p><b>Agreed.</b>   <b>Service Manager (Housing Options) / 30 November 2016</b></p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>cases. Evidence of case audits performed will be recorded and issues identified by quality assurance processes will be communicated to staff.</p> <p>Secondary review of applications will be undertaken by management prior to services (such as B&amp;B and temporary accommodation) being provided to homelessness applicants. This will be evidenced through the system workflow.</p>	<p><b>As above.</b></p>

<b>Business Continuity</b>	
<p>BCM controls were found, when compared with the PwC Resilience Benchmark, to be formalised (i.e. a set of controls were evidenced, for example, policy, corporate strategy, business impact assessment / continuity plan templates, and guidance) and a clear management commitment for business continuity was demonstrated. However, some of the controls lacked sufficient detail, for example, components of the Business Impact Assessment (BIA), IT Disaster Recovery (ITDR) procedures, and procurement guidance, and there were weaknesses, particularly in the implementation at a devolved departmental level, in respect of planning, exercising, and assurance over third parties. This could undermine the Council's overall response, and although they may have the capability to respond to planned / known events, for example, property disruption, they may be challenged by non-standard incidents, for example, workforce and supplier disruptions.</p> <p>The team responsible for business continuity are aware of these weaknesses, as demonstrated through the benchmarking exercise and are on a journey to improve the implementation of the current controls following considerable change both within the team and wider organisation in the past 12 months, but currently the business continuity programme is immature against its desired state of compliance against industry standards, and falls below other organisations compared within the benchmark.</p> <p><b>2 high priority; 4 medium priority recommendations were raised as a result of this audit. The 2 high priority recommendations are set out below.</b></p>	



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p><b><u>IT Resilience</u></b></p> <p>1. Establish clear governance arrangements for IT Disaster Recovery (ITDR) aligned to Business Continuity Management (BCM) Governance.</p> <p>2. Challenge Business Impact Assessments (BIAs) to ensure appropriate appraisal of resource requirements and ensure that these are shared with IT to inform ITDR strategy.</p> <p>3. Develop Major Incident Procedures and Technical Procedures necessary to support the implementation of the ITDR strategy.</p> <p>4. Implement training programme for key staff to ensure awareness and understanding of ITDR arrangements.</p> <p>5. Undertake assurance of ITDR capabilities through a programmed approach to exercise and audit.</p>	<p>All Agreed.</p> <p><b>Civil Contingencies Manager / 1 April 2017</b></p> <p><b>As above.</b></p> <p><b>Head of Digital Services / 1 January 2017</b></p> <p><b>As above.</b></p> <p><b>Head of Digital Services / 1 June 2017</b></p>
<p><b><u>Supplier Continuity</u></b></p> <p>1. Ensure that the requirements for supplier continuity arrangements are mandated where the contract risk dictates, during the procurement and contract process, with guidance developed for those responsible, for example, standard questions, clauses etc.</p> <p>2. The Council should use the output from the Business Impact Assessment to develop recovery strategies for its key suppliers on a risk basis.</p> <p>3. Measures should be put in place to ensure compliance checks are undertaken on suppliers BCM arrangements and involved in joint exercises to test BCM capabilities.</p>	<p><b>Agreed.</b></p> <p><b>Head of Procurement / 1 January 2017</b></p> <p><b>As above.</b></p> <p><b>As above</b></p>

## Planning Applications

A new management team has been in place since May 2016 and there was evidence of some improvement being made to the system of controls within the planning application assessment process. However, our review did identify significant weaknesses in the planning application review and assessment process due to issues in the design of automated and user access controls with the system used to process planning applications, Acolaid. Issues identified around the system audit trail, user access rights and system enforced controls in place mean that the system is highly susceptible to manipulation and abuse through inappropriate or fraudulent activity and action should be taken immediately by management to strengthen the controls embedded within the system.

**2 high priority and 3 medium priority recommendations were raised as a result of this audit. The high priority recommendations is set out below.**



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p><b><u>Approval of Planning Applications: Systems Audit Trail and Workflow</u></b></p> <ol style="list-style-type: none"> <li>1. In response to draft Audit findings, the audit trail in the Acolaid system has already been redesigned so that allocation of work and actions completed are recorded automatically based on the user ID. Further work is required to ensure that all actions are recorded in the Actions Screen.</li> <li>2. In response to draft Audit findings, the segregation of duties has already been enforced by the system for key parts of the process, such as the review and assessment of planning applications by restricting who can allocate and sign off applications as well as inputting Extension of Time. User access rights should be updated to reflect roles and responsibilities in the process.</li> </ol>	<p><b>All Agreed.</b></p> <p><b>Interim Team Manager / 31 January 2017</b></p> <p><b>Interim Team Manager / 31 January 2017</b></p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p><b><u>Acolaid System User Access</u></b></p> <ol style="list-style-type: none"> <li>1. Acolaid system access will be reviewed on a quarterly basis to ensure that user access rights are appropriate and evidence will be retained to demonstrate this review.</li> <li>2. IT will provide a listing of access rights on a quarterly basis to enable the review of access rights and process any changes required.</li> <li>3. Individuals with administrative access rights will be reviewed and restricted as a priority. The Planning team will work with the IT team to determine who needs administrative access rights. In addition the user access rights for different user profiles will be clearly defined and understood and current user access rights will be reviewed for appropriateness based on this understanding.</li> <li>4. The activity of users with administrative access rights on the system will be systematically monitored through the review of audit logs. This will be done on a quarterly process as part of action (a).</li> <li>5. IT will review their processes for processing leavers and removing access to the Acolaid system.</li> </ol>	<p><b>All Agreed.</b></p> <p><b>Interim Team Manager / 31 January 2017</b></p> <p><b>Senior Application Support Officer / 31 January 2017</b></p> <p><b>Interim Team Manager &amp; Senior Application Support Officer / 31 January 2017</b></p> <p><b>Interim Team Manager &amp; Senior Application Support Officer / 31 January 2017</b></p> <p><b>Senior Application Support Officer / 31 January 2017</b></p>

## Limited Assurance Reports (BHP)

Although these are limited assurance reports, details are not included in this report because they are reported separately to the BHP Audit Committee.

### Watling Gardens Tenant Management Organisation (BHP)

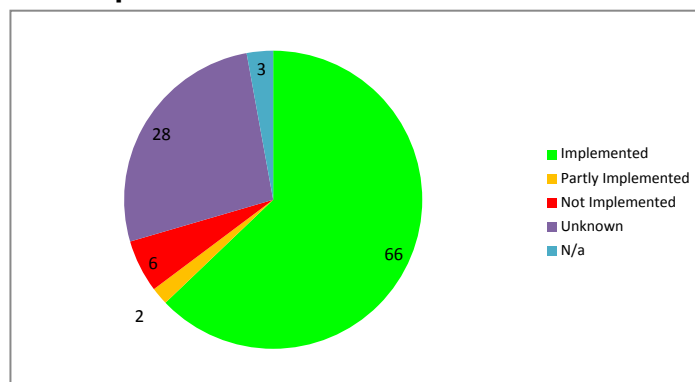
**Twelve priority 1 and seventeen priority 2 and one priority 3 recommendations were raised as a result of this audit.**



**Follow-Up of Previously Raised Recommendations**

As part of our rolling programme, all recommendations are being followed-up with management, as and when the deadlines for implementation pass. This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a required timeframe, with particular focus applied to any priority 1 recommendations.

The current level of implementation is as per the chart below. Of the 105 (15 priority 1 and 90 priority 2 recommendations, 68 (65%) had been either fully or partly implemented. 3 priority 1 recommendations are no longer applicable due to changes in the relevant service. A detailed summary of the performance in respect of implementation of recommendations is detailed in the following section.

**Implementation of Recommendations**

## Follow-Up of Previously Raised Recommendations

The approach to our follow up of internal audit recommendations has changed to improve organisational effectiveness and performance. Once an audit report has been agreed and finalised, the agreed recommendations are uploaded on the Audit & Investigations portal on Infostore. Each strategic director is then required to ensure that officers indicated as being responsible for the implementation of the audit recommendations update the status of each recommendation as and when due. On a monthly basis, Internal Audit reviews all priority 1 and priority 2 recommendations which are due for implementation in that month and sends reminders to the responsible officers for them to update Infostore on the status of implementation of the recommendations. Internal Audit then carries out verification work as required to confirm that they have been implemented. The Audit Committee is then updated on the status of implemented and non-implemented recommendations due as part of the normal reporting arrangements.

Set out below is a summary of the findings from the follow-up work completed since the last meeting (excluding BHP recommendations).

Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI); or in some cases no longer applicable (N/A), for example if there has been a change in the systems used. Partly implemented recommendations are those assessed as requiring further work in order to meet the objective of the recommendation.

### Summary Position – Implementation Status of Internal Audit Recommendations / Agreed Management Actions as at End November 2016.

The number of recommendations due to be implemented by the end of November 2016 as recorded on Infostore is as outlined in the table below:

Number of Priority One Recommendations due	15
Number of Priority Two Recommendations due	90

The current status of implementation is as outlined in the table below:

Details	P1	P2	Total
<b>Total Recommendations Due for Implementation as at 30/11/16</b>	<b>15</b>	<b>90</b>	<b>105</b>
<b>Implemented</b>	12	54	66
<b>Partially Implemented</b>	0	2	2
<b>Not Implemented</b>	0	6	6
<b>Not Applicable</b>	3	0	3

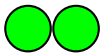



<b>Status Not Updated on Infostore</b>	0	28	28
<b>Total</b>	<b>15</b>	<b>90</b>	<b>105</b>

As part of the follow up process all recommendations have been subject to physical attempts to follow up, this includes emails being sent to recommendation owners, key responsible officers and further escalated more recently to Strategic Directors.

## Appendix A – Definitions

### Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	<b>Full</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	<b>Substantial</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	<b>None</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance grading provided are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

### Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.











## Recommendation Priorities


In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

<b>Priority 1</b>	Major issues for the attention of senior management and the Audit Committee.
<b>Priority 2</b>	Important issues to be addressed by management in their areas of responsibility.
<b>Priority 3</b>	Minor issues resolved on site with local management.

## Appendix B – Audit Team and Contact Details

London Borough of Brent	Contact Details
Vanessa Bateman – Interim Head of Audit & Investigations	 <a href="mailto:Venessa.bateman@brent.gov.uk">Venessa.bateman@brent.gov.uk</a>
Aina Uduehi – Audit Manager	 <a href="mailto:aina.uduehi@brent.gov.uk">aina.uduehi@brent.gov.uk</a>
Dave Verma – Counter Fraud Manager	 020 8937 1495  <a href="mailto:dave.verma@brent.gov.uk">dave.verma@brent.gov.uk</a> 020 8937 1262

PWC	Contact Details
Stuart Hall – Engagement Director	 <a href="mailto:stuart.hall@uk.pwc.com">stuart.hall@uk.pwc.com</a>
Matt Cavanaugh – Engagement Manager	 <a href="mailto:matt.cavanaugh@uk.pwc.com">matt.cavanaugh@uk.pwc.com</a>
Olesya Chikana – Engagement Junior Manager	 <a href="mailto:olesya.chikina@uk.pwc.com">olesya.chikina@uk.pwc.com</a>  07525 284290

 <b>Brent</b>	<p style="text-align: center;"><b>Audit Committee</b> 11 January 2017</p> <p style="text-align: center;"><b>Report from the Chief Finance Officer</b></p>
<p>For Information <span style="float: right;">Wards Affected: ALL</span></p>	
<p style="text-align: center;"><b>Planning Applications Audit Report</b></p>	

## 1. Summary

- 1.1. As requested at the June 2016 Audit Committee the final report regarding Planning Applications is presented for consideration by Members. An Officer from the service will attend to answer any questions.

## 2. Recommendations

- 2.1. That the Audit Committee notes the contents of the audit report and asks questions of management regarding the findings of the report.

## 3. Detail

- 3.1. At the June Audit Committee Members were advised that following the conclusion of an internal investigation a risk based systems audit would take place in the area to provide assurance with regards the control environment.
- 3.2. PriceWaterhouseCoopers (PwC) were asked to undertake the review. A final report was issued in November 2016, providing limited assurance and raising five recommendations.
- 3.3. The service have been asked to ensure that an appropriate officer is in attendance at the Audit Committee meeting to respond to any questions the Committee may have.

## 4. Financial Implications

- 4.1. There are no specific financial implications associated with noting this report.

## 5. Legal Implications

- 5.1. None

## 6. Diversity Implications

- 6.1. None.

**7. Background Papers**

7.1. None.

**8. Contact Officer Details**

Vanessa Bateman – Interim Head of Audit & Investigations, Civic Centre, 7<sup>th</sup> Floor.

Telephone – 07881 284151

**Conrad Hall  
Chief Finance Officer**

# *Internal Audit Report 2016/2017*

## Planning Applications

London Borough of  
Brent

Final

November 2016

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[Click to launch](#)



## Executive summary (1 of 4)

### Report classification



Limited

Page 82

### Trend

N/A- This is the first time we have reviewed this area.

### Total number of findings

Split between current year and prior open issues if relevant

	Critical	High	Medium	Low	Advisory
Control design	-	1	2	-	-
Operating effectiveness	-	1	1	-	-
<b>Total</b>	-	<b>2</b>	<b>3</b>	-	-

## Executive summary (2 of 4)

### Headlines/summary of findings

#### Overall conclusions

A new management team has been in place since May 2016 and there was evidence of some improvement being made to the system of controls within the planning application assessment process. However, our review did identify significant weaknesses in the planning application review and assessment process due to issues in the design of automated and user access controls with the system used to process planning applications, Acolaid. Issues identified around the system audit trail, user access rights and system enforced controls in place mean that the system is highly susceptible to manipulation and abuse through inappropriate or fraudulent activity and action should be taken immediately by management to strengthen the controls embedded within the system. We have included on page 4 a summary process map identifying the key weaknesses within the overall control system.

Based on the findings identified by this review we are only able to give **Limited Assurance** over how the risks covered by this review are being mitigated.

#### Key findings

- The audit trail supporting the completion of key planning tasks is driven by the user selection from a drop down field that any user can amend rather than being automatically recorded based on the username within the system who has actually processed the task. The audit trail, including evidence of key approvals in the planning application process, may not accurately reflect who has actually performed the task and could be susceptible to manipulation to hide inappropriate activity.
- The system does not enforce segregation of duties between key parts of the planning process such as the initial assessment of the application by a Planning Officer and the subsequent approval by a Planning Manager.
- Roles and responsibilities are not fully aligned to access rights within the system. There are 9 levels of user access rights in the Acolaid system. Those responsible for granting/amending access rights were not able to define what access rights these user profiles permitted.
- Acolaid system user access rights have not been regularly reviewed by management. There are 739 user IDs listed on the Acolaid system. 429 (58%) users had not used the system since 30/3/2016 at the time of audit (01/08/2016) consisting of staff that have left the Council or who no longer require access to Acolaid. There is no effective mechanism in place to identify users who have left the Council or no longer require access to the system and withdraw access rights accordingly.
- There is no evidence an anti-bribery risk assessment has been completed for the Planning Department and anti-bribery awareness training has not been provided to planning staff. The Council may not be able to demonstrate that it has taken steps to prevent bribery resulting in non-compliance with the Bribery Act 2010 which could result in reputational damage and prosecution under this legislation.
- The Council officers a pre-application advice service in relation to prospective planning applicants. Advice issued should be subject to review in advance of being issued. 7/101 (7%) of pre-applications had been processed and reviewed by the same person.

# Executive summary (3 of 4) Summary Process Map with control weaknesses identified



**Finding #1: System audit trail and workflow**

- Drop down user records can be completed by any user;
- Actions are not automatically recorded based on the username within the system who has actually processed the task;
- The audit trail, including evidence of key approvals in the planning application process, may not accurately reflect who has actually performed the task.

**Finding #2: Acolaid system user access**

- Acolaid system access is not reviewed on a periodic basis to ensure that user access rights are appropriate;
- Digital services do not effectively process Council leavers to remove user access from the Acolaid system;
- Levels of user access rights are not clearly defined and understood.

**Finding #3: Anti-bribery Arrangements**

- An anti-bribery risk assessment and awareness training has not been provided to staff;
- A planning code of conduct is in place for members, however this does not include provisions relating to officers; and
- There is no requirement to make formal written declarations and a register of interests is not maintained.

**Finding #4: Pre-application review**

- Upon reviewing an Acolaid system download of all pre-application advice issued in 2016, 7/101 (7%) of pre-applications had been processed and reviewed by the same person; and
- There is no system enforced segregation of duties in Acolaid to support this control

**Finding #5: Management Information:**

- Inadequate Management Information reporting arrangements in place to effectively monitor and review operational performance.



## Executive summary (3 of 4)

- 1
Approval of planning applications: System audit trail and workflow
High
- 2
Acolaid system user access
High
- 3
Anti-bribery arrangements
Medium
- 4
Pre-application review
Medium
- 5
Management Information
Medium

### Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
Area 1	-	2	3	-	-	1, 2, 3, 4, 5

## ***Background and scope (1 of 2)***

### ***Background***

Most new buildings or major changes to existing buildings or the local environment require planning permission. The London Borough of Brent (the Council) is responsible for deciding whether a development - anything from an extension on a house to a new shopping centre - should go ahead.

Planning Policy is supported by legislation, this mainly takes the form of Acts of Parliament and Statutory Instruments. Planning authorities appoint planning officers to assist with assessing planning applications. Most minor and uncontroversial planning applications – around 90% received by most local planning authorities – will be decided through delegated decision-taking powers, which means they are dealt with by local planning authority officers. Larger and more controversial developments are decided by the Planning Committee, informed by officers' recommendations. The terms of reference for the Council's Planning Committee determines what should be referred for decision.

Planning applications can be received online via the national planning portal or by post. The Council receives 60% of applications online and 40% by post. Brent Customer Services are responsible for logging and receipting applications received online on to the system used by Planning Services to process applications.

The Council offers a planning pre-application advice service. The pre-application advice service helps identify proposals that raise critical issues and are difficult to resolve successfully and provide guidance to support proposals accordingly.

This review considered the design and operating effectiveness of key controls in place around the processing of planning applications to ensure that applications are assessed appropriately and objectively and decisions are made in line with delegated officer responsibilities. There was a particular focus on the controls in place to mitigate the risk of fraud or conflicts of interests impacting the planning application process.

## ***Background and scope (2 of 2)***

### **Scope**

#### **Sub-process**

- Application processing and decision making

#### **Key control objectives**

- Assessments are made objectively and sufficient evidence is retained to support decisions made.
- Planning permission decisions are made in accordance with defined roles and responsibilities and delegated powers.

#### **Key risks**

- Planning applications may not be assessed appropriately, through fraud or error, exposing the Council to financial, legislative and reputational risk if:
- Records, including rationale and evidence to support decisions made by the Council, are incomplete or inaccurate;
- Roles and responsibilities, including delegated authorities, are not clearly defined, understood and embedded into processes;
- There is insufficient segregation of duties and management oversight of the assessment process;
- System access rights do not reflect roles and responsibilities and do not enforce segregation of duties;
- Management information is not available or assessed to support the identification of inappropriate activity;
- There is insufficient awareness of the Bribery Act to encourage compliance;
- Fraud risks have not been assessed and appropriate safeguards are not in place to manage risk; and
- Conflicts of interest, such as self-review threats, are not identified and resolved

#### **Limitations of scope**

- Our internal audit testing has been performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing has been designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit;
- Please note that in relation to the scope above, whilst our internal audit has assessed the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions; and
- This review focussed on officer responsibilities in relation to planning applications only. We have not considered the operating effectiveness of the Council's Planning Committee and associated decision making.

## Current year findings (1 of 5)

### Approval of planning applications: System audit trail and workflow

Control design

1

Page 88

#### Finding rating

Rating

High

#### Finding and root cause

The Acolaid system is used to process planning applications and record evidence of assessment and review. The system also captures the approval of planning applications at key stages of the process. We found:

##### Audit trail:

- Records of the actions completed by officers in the planning application process, such as the assessment of a planning application by a Planning Officer and subsequent review of the application by a Planning Manager, are recorded using a drop down menu which can be completed by any user;
- The system log that documents the completion of key planning tasks is driven by user selection from the drop down field rather than being automatically recorded based on the username within the system who has actually processed the task;
- Records, including evidence of key approvals in the planning application process, may not accurately reflect who has actually performed the task; and
- Management assert that there is an audit trail maintained of actual user activity however were not able to provide evidence of this and this is not reviewed to identify inappropriate user activity.

##### Workflow:

- The system does not enforce segregation of duties between key parts of the planning process such as the initial assessment of the application by a Planning Officer and the subsequent approval by a Planning Manager;
- User profiles and access rights in the system are not fully aligned to roles and responsibilities in relation to processing applications. For example, officers responsible for vetting applications for completeness are able to complete the Planning Officer review in the system and Planning Managers are able to complete vetting and Planning Officer review tasks;
- Although we noted that allocation of review work to Planning Officers has been restricted to Planning Managers since May 2016, the system does not record the Planning Manager that has reallocated cases between Planning Officers; and
- There are 9 levels of user access rights to the Acolaid system. However, IT support were not able to define what those access rights permitted. Management did not have a good understanding of the core system controls and there is a high dependency on the system developer.

## Current year findings (1 of 5 continued)

### Approval of planning applications: System audit trail and workflow

Control design

Page 89

1

#### Finding rating

Rating

High

#### Sample testing:

We reviewed a sample of 40 Planning Applications received in the period 01/01/2016 to 31/07/2016 to assess whether planning tasks and approvals had occurred in line with defined roles and responsibilities:

- 2/40 (5%) cases where the name of the person who input the application onto the system was not completed;
- 1/40 (3%) case where a Planning Manager had input the application onto the system rather than Customer Services. There was no clear reason why this occurred;
- 1/40 (3%) case where an application had been input, vetted and processed by the same individual. It should be noted that in this instance there was approval by a Planning Manager before it was finalised;
- 15/40 (38%) cases where the Planning Officer processing the application had allocated the work to themselves. It should be noted that these predated the changes made in May 2016 where cases can only be allocated by a Planning Manager in the system;
- 3/40 (8%) cases where work had been reallocated to another Planning Officer, however there was no audit trail to identify who has reallocated the work; and
- 2/40 (5%) cases where the Manager reviewing the application had also completed the application assessment and there was no segregation of duties.

#### Risk

The Acolaid system does not accurately record the allocation and completion of work and the audit trail is susceptible to manipulation. In addition the system does not enforce segregation of duties for key parts of the process and system access rights do not reflect roles and responsibilities. As a result planning applications may be approved without the prerequisite review and approval in line with roles and responsibilities in place. This could result in planning applications being approved inappropriately due to fraud or error.

## Current year findings (1 of 5 continued)

### Approval of planning applications: System audit trail and workflow

Control design

1

Page 90

#### Finding rating

Rating

High

#### Action plan

- a) In response to draft Audit findings, the audit trail in the Acolaid system has already been redesigned so that allocation of work and actions completed are recorded automatically based on the user ID. Further work is required to ensure that all actions are recorded in the Actions Screen.
- b) In response to draft Audit findings, the segregation of duties has already been enforced by the system for key parts of the process, such as the review and assessment of planning applications by restricting who can allocate and sign off applications as well as inputting Extension of Time. User access rights should be updated to reflect roles and responsibilities in the process.

#### Responsible person/title:

Interim Team Manager

#### Target date:

a) 31/01/2017

b) 31/01/2017

#### Reference number

1

## Current year findings (2 of 5)

### Acolaid system user access

#### Control design

Page 91

2

#### Finding rating

Rating

High

#### Finding and root cause

From review of the Acolaid system user rights we found:

- There are 739 user IDs are listed on the Acolaid system. 429 (58%) users have not used the system since 30/3/2016 at the time of audit (01/08/2016). From discussion with the Senior Applications Technical Support Officer these will be users who have left the Council;
- There is not an adequate mechanism in place for Digital Services to process leavers or officers who have moved roles and revoke or amend access to the Acolaid system;
- There is no periodic review of the Acolaid system to review whether access rights and current users reflect current staff in post and accurately reflect current roles and responsibilities;
- There are 42 users who have System Admin access rights which allows the user to add, remove and amend user access rights. It is not clear whether this amount of people require administrative access rights. This level of user privilege has been appropriately restricted. The activity of users with administrative access rights on the system is not systematically monitored;
- One user is designated AcoTest user that is not assigned to a specific user. We were informed by the Senior Applications Technical Support Officer that this is a test account that has administrative access rights and is not used. It is not clear who has access to this account and the activity undertaken by this user is not monitored; and
- There are 9 levels of user access rights to the Acolaid system. IT support were not able to define what those access rights permitted and therefore it is not clear whether the granting of access rights is appropriate in light of actual requirements based on roles and responsibilities.

#### Risk

System access rights do not reflect current roles and responsibilities. Individuals who do not require access to the system or have left the Council have access to the system and are able to make inappropriate changes to records and standing data due to fraud or error.

## Current year findings (2 of 5 continued)

### Acolaid system user access

#### Control design

Page 92

2

#### Finding rating

Rating

High

#### Action plan

- a) Acolaid system access will be reviewed on a quarterly basis to ensure that user access rights are appropriate and evidence will be retained to demonstrate this review.
- b) IT will provide a listing of access rights on a quarterly basis to enable the review of access rights and process any changes required.
- c) Individuals with administrative access rights will be reviewed and restricted as a priority. The Planning team will work with the IT team to determine who needs administrative access rights. In addition the user access rights for different user profiles will be clearly defined and understood and current user access rights will be reviewed for appropriateness based on this understanding.
- d) The activity of users with administrative access rights on the system will be systematically monitored through the review of audit logs. This will be done on a quarterly process as part of action (a).
- e) Digital services will review their processes for processing leavers and removing access to the Acolaide system.

#### Responsible person/title:

- a) Interim Team Manager
- b) Senior Applications Technical Support Officer
- c) Interim Team Manager & Senior Applications Technical Support Officer
- d) Interim Team Manager & Senior Applications Technical Support Officer
- e) Senior Applications Technical Support Officer

#### Target date:

31/01/2017

#### Reference number

2



## Current year findings (3 of 5)

### Anti-bribery arrangements

#### Operating effectiveness

Page 93

3

#### Finding rating

Rating

Medium

#### Finding and root cause

Planning Officers are bound by the Royal Town Planning Institute's Code of Conduct, which includes competence, honesty and integrity as key principles. However, this does not include any specific requirements regarding anti-bribery. We reviewed the Council's Anti-Fraud and Bribery Policy and found:

- The Council has committed to maintain adequate and proportionate procedures to prevent bribery, undertake anti-bribery risk assessments and make all employees aware of their responsibilities to adhere strictly to this policy at all times;
- An anti-bribery risk assessment for the planning applications process and anti-bribery awareness training has not been provided to staff;
- A planning code of conduct is in place for members, however this does not include provisions relating to officers. We note that the code of conduct is currently being redrafted to include officers; and
- Planning Officers are required to flag any potential conflicts of interest in processing planning applications on an ad-hoc basis, but there is no requirement to make formal written declarations and a register of interests is not maintained.

#### Risk

The Council is not able to demonstrate that it has taken steps to prevent bribery resulting in non-compliance with the Bribery Act 2010 which could result in reputational damage and prosecution.

Inappropriate decisions are made regarding proposed planning applications due to bribery and undue influence.

## Current year findings (3 of 5 continued)

### Anti-bribery arrangements

#### Operating effectiveness

Page 94

3

#### Finding rating

Rating

Medium

#### Action plan

- a) A bribery risk assessment will be completed to ensure adequate and proportionate procedures are in place to prevent bribery. Contact has been made with the Council's legal service to ensure corporate involvement in the roll out and it is proposed to undertake the risk assessment once other actions are embedded in Spring 2017.
- b) Anti-bribery training has been provided to ensure planning officers are aware of their responsibilities via the Team Meeting 04/11/2016 and by circulating the Council's Anti-Bribery Policy to the team.
- c) Planning Officers will be asked to complete declarations of interest on commencing work with the Council and annually thereafter in April of each year to identify potential conflicts of interest and introduce safeguards if appropriate.

#### Responsible person/title:

Interim Team Manager

#### Target date:

- a) 30/04/2017
- b) Completed 04/11/2016
- c) Ongoing and 30/04/2017

#### Reference number

3

## Current year findings (4 of 5)

### Pre-application advice

#### Operating effectiveness

Page 95

4

#### Finding rating

Rating

Medium

#### Finding and root cause

Prior to submitting a planning application, the Council provides a pre-application advice service to assist applicants to consider how a proposal can be supported. All written pre-application advice on major planning applications should be prepared by a Planning Officer and reviewed by a Planning Manager before being issued to the client.

We found:

- Upon reviewing an Acolaid system download of all pre-application advice issued in 2016, 7/101 (7%) of pre-applications had been processed and reviewed by the same person; and
- There is no system enforced segregation of duties in Acolaid to support this control (See *finding 1.*)

#### Risk

Insufficient segregation of duties and independent review of pre-application advice may result in poor quality advice not being identified and resolved or inappropriate advice being issued based on the scope of services that can be provided at the pre-application stage.

#### Action plan

Work has already been on-going to ensure that the Acolaid system prevents officers reviewing and approving their own written advice to customers (excluding Duty Officer query responses).

#### Responsible person/title:

Interim Team Manager

#### Target date:

31/01/2017

#### Reference number:

4

## Current year findings (5 of 5)

### Management Information

#### Control design

Page 96

5

#### Finding rating

Rating

Medium

#### Finding and root cause

From discussion the Interim Team Manager we found that the statutory quarterly P1 – major planning applications and P2 – local planning applications returns are used for reporting and reviewed by management, but no further management information is produced or reviewed.

From review of the 1 April to 30 June 2016 P2 report, we found that this report details the total number completed records processed within the period and provides a breakdown completion times by different application type. From discussion with staff and management we understand that the returns are a standard format designed to report against statutory requirements and do not provide detailed insight into operational performance and management would not be able to proactively address operational issues in order to mitigate non-compliance with statutory requirements. We found no evidence of additional performance reporting, such as performance of individual vetting and Planning Officers, that would assist in the monitoring and reviewing operational performance and identify inappropriate officer activity.

#### Risk

There is insufficient performance information available to management to facilitate effective oversight of operational performance. Operational issues are not identified and resolved in a timely manner.

#### Action plan

Additional Performance Management reporting has been instituted and as a result more robust management reporting has been created and is now available to managers and officers and covers total number of applications in the system, by week, team and officer against targets, number of applications waiting to be validated against target and reporting on individual vetting officer performance, officer caseload reports and dashboard showing number of applications to validated, applications and pre-applications to be determined and appeals to be processed which is considered to be provide over and above the appropriate level to monitor and review operational performance.

#### Responsible person/title:

Interim Team Manager

#### Target date:

Completed

#### Reference number:

5

## Appendix A: Basis of our classifications

### Individual finding ratings

#### Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability

#### High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

#### Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation

## Appendix A: Basis of our classifications

### Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

An observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere. Does not require a formal management response.

### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points	Report classification	Level of assurance	Points overall
Critical	40 points per finding	<input type="checkbox"/>	Substantial	5 points or less
High	10 points per finding	<input type="checkbox"/>	Reasonable	6 – 19 points
Medium	3 points per finding	<input type="checkbox"/>	Limited	20 – 39 points or minimum 2 high risk findings
Low	1 point per finding	<input type="checkbox"/>	No	40 points and over
Advisory	0 points per finding	<input type="checkbox"/>		

## Appendix B: Limitations and responsibilities

### Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors


It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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 <p><b>Brent</b></p>	<p><b>Audit Committee</b> 11 January 2017</p> <p><b>Report from the Chief Finance Officer</b></p>
<p>For Information <span style="float: right;">Wards Affected: ALL</span></p>	
<p><b>Risk Management Arrangements and Strategic Risk Register</b></p>	

## 1. Summary

- 1.1 This report presents the Council's current Strategic Risk Register (SRR).
- 1.2 The report also seeks to update on an on-going review of Risk Management, the full outcome of which will be reported to the March Committee.

## 2. Recommendations

- 2.1 The Audit Committee review and comment on the latest version of the Strategic Risk Register.
- 2.2 Audit Committee note the progress and objectives of the planned review.

## 3. Detail

- 3.1 Risks are contained within the departmental registers which can be viewed via the infostore system. Each risk has an owner responsible for ensuring that the information captured is accurate, complete and timely. There is an escalation process for risks to be considered for inclusion of the Strategic Risk Register.
- 3.2 This Strategic Risk Register has been updated by risk owners and presented for challenge at the Risk Management Group before being agreed by the Corporate Management Team (CMT). The Risk Register is provided as an appendix to this report. The focus of discussions on risk however at CMT were around the future strategy and procedures relating to risk management as part of the on-going review.
- 3.3 An audit of the Risk Management Arrangements was included as part of the 2016/17 Internal Audit Plan. This audit has been superseded by a review by the Interim Head of Audit and Investigations which will:

- provide assurance to CMT and Members;
- inform the update of the Council's Risk Management Strategy;
- form the basis for assurances contained within the 2016/17 Head of Internal Audit Opinion; and
- Contribute, along with the assurance mapping exercise undertaken by PriceWaterhouseCoopers (PwC) to the audit planning process for 2017/18.

3.4 The review will assess:

- the interaction between service/directorate risks and the Strategic risk register;
- how embedded risk management is into services/directorates;
- efficiency and Effectiveness of the Framework – capturing and communicating risk; and
- maturity of Risk Management Framework – level to which it can be demonstrated that risk is considered within decision making.

3.5 As part of the review the roles and responsibilities will also be considered in particular the role of the Risk Management Group that currently meets every eight weeks.

3.6 The outcome of the review and recommendations for consideration will be reported to CMT in February and a new Strategy will be presented to the Audit Committee in March for approval.

3.7 The first stage of the review commenced in September 2016 and involves reviewing the risk registers held at Departmental Management Team (DMT) level and providing challenge to operational directors and their management teams with regards the risks identified, controls and assurances sited and the ratings awarded to each risk. This work is most progressed in Children and Young People Services and Regeneration and Environment.

3.8 It was agreed by CMT that in the New Year sessions would be run at each DMT meeting to discuss: risk registers and risk management process, the assurance maps and assurance gaps for 2017/18 to inform audit planning.

#### **4. Legal Implications**

4.1 The Accounts and Audit Regulations (England) 2011 section 4(1) require the council to “ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

4.2 Further section 5 (1) (4) (i) requires that the Chief Finance Officer determines accounting control systems which include adequate measures to ensure that risk is appropriately managed.

**5. Financial Implications**

5.1 None

**6. Diversity Implications**

6.1 None

**7. Contact Officer Details**

Vanessa Bateman, Interim Head of Audit & Investigations, 7th floor, Brent Civic Centre

Telephone – 07881 284151

CONRAD HALL

Chief Finance Officer

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C & YP 1	Failure to meet demand for school places. This is particularly acute in the secondary phase where demand is expected to exceed supply from 2018. The shortage of suitable sites for new secondary schools and the high costs of building or expanding secondary schools adds significant challenge.	Council unable to discharge statutory duty to provide education. Reputational damage, legal challenge, increased health and safety risks.	Operational Director Safeguarding, Performance & Strategy	6	4	18	New School Place Planning Strategy approved October 2014 and updated approved by Cabinet November 15. Funding for basic need secured from central govt to provide additional school places; strengthen partnership working with EFA to maximise influence over Free Schools programme and reduce costs to Council; strengthen partnership working with Regional Schools Commissioner to maximise influence over secondary expansion, use of Fair Access Protocol to place pupils above published numbers; Temporary expansions and Projects established to address shortfall; Regular reports to CMT & Executive to agree prioritisation of use of capital funding; Strategy board meets on a regular basis. Lobbying and work with London Councils, Education Funding Agency, Department for Education and Cabinet.	Regular monitoring by CMT 6 & Cabinet.	3	18	None	There is also limited site availability for secondary schools. The only additional action the Council might take is to identify council owned sites for new secondary schools or make new site allocations in the local plan. The Council is aware of two Free school applications on secondary schools in Brent. If approved these will be funded by the DfE although locating sites will remain a challenge.	N/A	Operational Director Safeguarding, Performance & Strategy	
C & YP 2	Vulnerable children not adequately safeguarded. In Brent this can result in an increased risk of Child Sexual Exploitation and Radicalisation.	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Operational Director Safeguarding, Performance & Strategy	6	4	18	Children's social work teams within the Localities and LxL & Permanency Services deal with child protection and safeguarding issues; Brent Local Safeguarding Children's Board support and challenge to partner agencies; Safer Recruitment & Training; Whistleblowing; publicity and raising awareness within the community in general; Strong partnership working with relevant agencies; oversight of performance with Members and Council Management Team; Corporate Parenting Committee; Scrutiny committee oversight; internal controls including case auditing arrangements; monitoring arrangements to track young people's progress & Performance Information (through quarterly scorecards);	2015 Ofsted inspection found that children were safe. Implementation of post-Ofsted action plan; Internal Service User Surveys; Outcomes of auditing of MASB referrals and entry to care arrangements in 2016; % performance information produced confirms ongoing assurance of systems' robustness	6	2	12	None	None	N/A	Operational Director Safeguarding, Performance & Strategy
CMT1	Budget savings for 2016/17 to 2018/19 have significant consequences for service delivery which have not been predicted as part of the budget process.	Unforeseen service delivery failure.	Chief Finance Officer	5	4	20	No major service failures in 2016/17 identified as being directly caused by reductions to planned expenditure.	Quarterly reporting on performance to CMT and Cabinet. Service planning process to identify and therefore mitigate risk of service failure in future years. Draft budget proposals contain, relative to previous years, fewer substantial reductions in planned expenditure.	3	4	12	None	Ongoing performance and budget monitoring in line with existing systems, but no additional actions over and above normal activity planned at present given risk profile.	31/03/17	Chief Finance Officer
CMT2	Failure to set and deliver affordable budgets over the period 2016/17 to 2018/19.	Council unable to live within its financial means and deliver affordable spending plans, leading to a financially unsustainable position over the medium term.	Chief Finance Officer	5	3	15	Budget monitoring system to identify issues and prioritise mitigating actions, and a forecast underspend in 2016/17. Potential structural risks in 2017/18 budget identified and mitigating actions in place to contain them. Draft budget proposals published which, if agreed, are at least sufficient (on reasonable assumptions) to make planned expenditure affordable up to 2018/19.	Monthly budget monitoring process. Scrutiny and consultation of budget proposals.	3	3	9	Down	n/a	n/a	Chief Finance Officer
CMT3	Non compliance with Health and Safety legislation.	Vulnerable to enforcement investigation and / or action, criminal or civil legal action, adverse financial and / or reputational impact; service disruption; loss of service	Strategic Director, Resources	6	4	20	H&S Policies and procedures in place Regular testing of procedures Mandatory H&S training programme Regular H & S review meetings with Property & Projects and Corporate Health & Safety Board Regular H&S review meetings with Property & Projects and Corporate H&S Board	1. Health & Safety Board 2. Regular Monitoring	5	4	20	None	Review health and safety arrangements; Gap analysis by Corporate Health and Safety Manager measured against the DfGAS30001 standard; assess the safety climate; develop the strategic health and safety plan.	31/03/17	Head of Property, Resources
CMT4	Major or large scale incidence (accident, natural hazard, riot or act of terrorism); business interruption affecting the Council's resources and its ability to deliver critical services. Risk to safety of staff and loss of staff.	Service delivery disruption and impact on the Council's ability to deliver critical services. Reputational damage to the borough should perpetrator of terrorism be living or radicalised within the borough.	Strategic Director, Resources	6	3	18	Secondary data centre able to deliver all ICT services. All systems can be managed remotely. All staff have access to remote desktop.	Emergency Planning and Business Continuity Planning. Regular review and assessment of robustness of plans. Lessons learned from recent tests and incidents have been signed off at CMT	6	2	12	None	The team has been relocated within the property service in resources. This provides for some natural synergies working closely with those responsible for the building in FM and also the team with oversight of all the authority's property assets. The resources department is where other key critical services for response are based; i.e., ICT, finance and	30/06/17	Strategic Director, Resources
CMT5	Information Governance - Inappropriate access, corruption or loss of data	Exposure of confidential information or corruption of data Prosecution or fine for statutory breach Loss of public trust	Senior Information Risk Owner (Chief Finance Officer)	4	6	20	Audits of compliance, with information Commissioner's audit complete, and all actions arising from it complete, or at least partially complete for lower risk items. Policies and Procedures in place and have been assessed as meeting relevant industry standards Information governance forum meets quarterly and reports in to CMT to identify emerging risks and issues and to recommend action where appropriate Mandatory e-learning modules revised and rolled out to all staff with compliance regime enhanced	1. Information Governance Group 2. Internal Audit 3. ICO audit reported to audit committee in Jan16 and to CMT in Feb16. Action plan implemented (or at least partially implemented for lower risk items). IT infrastructure and hardware regularly tested to industry standard compliance, including PSN accreditation.	3	5	15	Down	Internal Audit Work to review assurance	30/12/16	Information Governance Officer
CWB 1	Failure to safeguard vulnerable persons (older persons; persons with physical & learning disabilities; mental health, transitional young people and other vulnerable adults) leaving and resulting in abuse, death or injury of vulnerable persons (both in terms of safety and financial abuse).	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Strategic Director, Adult Social Care	6	3	18	Safeguarding of Adults Teams deal with safeguarding adults issues. Safer Recruitment; Multi-Agency Policies and Procedures for Adults; ASC Transformation Programme; Reablement. Appointments/Deputyship arrangements in place after client needs have been assessed. Good links with Children & Families and Legal to ensure robust adherence to safeguarding children's policies and procedures.	Care Quality Commission Inspections; Carers Survey; Internal Audit; Office of Protection. Children's Service, Ofsted, Internal Audit On-going training for staff in relation to safeguarding and regular review of procedures and policies.	6	2	12	None	None	N/A	Head of Reablement and Safeguarding
CWB 7	Impact of government's housing and welfare reforms causes significant rise in homelessness	Increased homelessness and associated service pressures leading to an increase in use of emergency accommodation and out-of-borough placement	Operational Director Housing	6	6	18	Cross-service welfare reform approach in place. Temporary Accommodation reform plan in place to maximise homelessness prevention and private rented resolution and development of resettlement resources for out-of-borough placements.	Regular Monitoring	5	4	20	Mainstream of assisted self-service front-line service from April 2016, integrated with benefits and employment advice. Joint homelessness and children act assessment protocol to be developed.	30/04/16	Head of Housing Needs.	

CWB11	Failure by BHP to deliver acceptable housing management services to Brent tenants and leaseholders, or to adequately and safely maintain the council's housing assets	Increased disrepair, ASB, and associated costs and adverse impact on the welfare of tenants and leaseholders. High levels of customer dissatisfaction and adverse reputational impact for the council. Health & safety breaches and risk to residents. Delay and increased cost to stock investment programme.	Strategic Director, 5 Community Wellbeing	6	38	BHP Business Recovery Plan in place with oversight by joint BHP council board to remedy identified areas of under-performance. Audit investigation commissioned of stock investment programme and wider contract management performance. New interim senior leadership in place.	Regular monitoring of business recovery plan progress and KPIs. Regular client-side performance review and quarterly partnership meetings	5	5	24	Audit action plan produced and implemented (March) New capital contract management structure established (March) Complete implementation of Business Recovery Plan (to June). Examination of contingency housing management arrangements	30/06/16	Operational Director, Housing & Culture
R2	Successful Judicial Challenge against the authority by way of Judicial Review and other litigation.	Reputational risk to the authority and inability to progress with strategic objectives of the organisation; potential cost to the Council if costs order made against the authority.	Chief Legal Officer	6	5	Legal advice given at CMT, Cabinet and PCG, clear advice given on potential areas of challenge and any litigation commenced.  Monitoring process of decision making to include proactive advice on issues such as equality impact analysis and considering how decisions are made, obtain expert advice on key problem issues as required.	1. Cabinet 2. CMT 3. PCG 4. Legal team 5. Counsel Advice	6	3	18	None Chief Legal Officer to prepare report about judicial reviews to be presented to Corporate Management Team (CMT). Development of protocol to enable Heads of Service to have better visibility on them. Training to be arranged for client.	31/03/17	Chief Legal Officer
R4	Ability to attract and retain high calibre staff	Key Posts unfilled  Poor service delivery  Failure to have a succession plan in place can lead service failure and the council not having a talent pipeline that identifies future leaders.	HR Director	5	5	1. Existing recruitment and retention policy and procedures 2. Workforce 2017-2020 3. Talent Management Strategy	HR Improvement Group	4	3	12	None 1. Implement a Workforce Strategy and Action Plan for 2017 – 2020	15/03/2017	Director of HR & Organisational Development

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

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