



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