



# LONDON BOROUGH OF BRENT

## MINUTES OF THE AUDIT COMMITTEE Tuesday 5 January 2016 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair), Councillor Khan (Vice Chair) and Councillors Davidson, Khan, Naheerathan and Nerva.

Also present: Councillor Perrin.

Apologies for absence were received from Councillor A Choudry.

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

David Ewart (Independent Chair) declared that until May 2013 he was a Finance Director with Ealing Council, and currently do use the Joint Audit Service to provide internal audit in his role as Treasurer of the Mortlake Crematorium Board.

### 2. **Deputations**

None.

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

RESOLVED:-

that the minutes of the previous meeting held on 18 November 2015 be approved as an accurate record of the meeting.

### 4. **Matters arising**

None.

### 5. **Annual Audit Letter 2014-15 - LB Brent**

The Committee received a report, Annual Audit Letter, which summarised the key findings of the external auditors, KPMG's 2014/15 audit of the Authority's financial statements and Value for Money (VFM) conclusion. Representatives of KPMG, Phil Johnstone (Director) and Steve Lucas (Audit Manager) attended the meeting to present the report and answer queries.

Phil Johnstone informed members that KPMG were satisfied that the Authority had proper arrangements for securing financial resilience and for challenging how it secured economy, efficiency and effectiveness. KPMG issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM). He continued that KPMG was of the view that the financial statements gave a true and

fair view of the Authority as at 31 March 2015 and therefore issued an unqualified opinion on the financial statements including those of the pension fund.

The audit identified four significant audit adjustments the impact of which was to increase the net worth of the Authority as at 31 March 2015 by £4.1 million and related to the following:

- Adjustment made to estimates for the year end school bank position of £4.6 million;
- Reallocation of reversals of valuation losses of £74.3 million on Council dwellings between HRA expenditure and income;
- Decrease in valuation of other Land and Buildings within Property, Plant and Equipment by £1.2 million due to an incorrect revaluation calculation; and
- Adjustment to deferred income of £5.6 million as a result of the PFI contract variation.

There was one potential difference of £1.3 million relating the Pension Fund that the Authority did not adjust as it was not material and was to be investigated further by the Authority. He continued that KPMG issued an unqualified opinion on the pension fund financial statements and an opinion that the Pension Fund Annual Report was consistent with the financial statements.

In response to members' questions, Phil Johnstone explained that the electors' queries related to Barham Park Library and a decision making process of the Cabinet but none impacted on the audit certificate being given and the audit year closed.

Members were advised that specific risks including overpayment were outside the remit of KPMG as they were the responsibility of the Department of Works and Pensions (DWP). Conrad Hall, Chief Finance Officer, clarified that the single fraud investigation service including investigations into overpayments was transferred to the DWP via TUPE agreement in 2014

RESOLVED:-

that the Annual Audit Letter from the external auditor, KPMG, be noted.

## 6. **LB Brent Progress report - January 2016**

The report provided a summary of the work performed by KPMG since the meeting of the Committee in September 2015. Steve Lucas (KPMG Audit Manager) informed members that the audit of the Authority's housing benefit grant claim was completed on 30 November 2015 and a qualified audit report was issued. Although there was a reduction in the number of errors relating to self employed income, KPMG's grant report would seek to review the timing of when the errors arose so as to ascertain the level of improvement made during the year. He continued that there were no issues needed to report to the Government Departments on the Teachers' Pension return and the pooling of housing capital receipts return.

Steve Lucas then drew members attention to KPMG's work over the next quarter focussing on the following:

- Preparing and agreeing our grants report which will be presented to the next Audit Committee;

- Planning for our 2015/16 financial statements and value for money audits which will include meeting key officers;
- Preparing our 2015/16 Audit Plan for the Authority and its Pension Fund for presentation at the Audit Committee in March 2016;
- Planning our interim accounts audit including update KPMG's knowledge of the Authority's financial systems and overall control environment, review the findings of internal audit and test the key financial controls supporting the production of financial information for inclusion within the Authority's financial statements; and
- Discussing with officers the arrangements for our opinion audit visit and how we can ensure the audit is delivered with maximum efficiency for both the Authority and ourselves.

RESOLVED:-

that the KPMG's progress report be noted.

## 7. Information Commissioner's Office Audit

The Committee considered a report which outlined the position with the Information Commissioner's Office (ICO) data protection audit and the Council's action plan to address the findings from the audit. The audit was to assess the Council's compliance with the Data Protection Act (DPA). Peter Gadsdon (Director of Performance, Policy and Partnerships) and Raj Seedher (Information Governance Manager) attended the meeting to present the report and respond to queries. The Director stated that the ICO audit was in respect of security of personal data; subject access requests; and data sharing.

Members heard that the audit provided an overall conclusion of Limited Assurance (Amber grading) which meant that there was a limited level of assurance that processes and procedures were in place to comply with data protection. The audit identified considerable scope for improvement in existing arrangements to reduce the risk of non-compliance with the DPA. The Director highlighted the significant ones and the actions proposed to address them as follows:

Improved technical controls for portable memory devices. Measures were being put in place to block the use of portable devices such as USB pen drives from the network in order to improve security of confidential data.

Annual mandatory refresher training for all staff and contractors would replace the current training required every four years.

The target for complying with the SAR statutory timeframes, currently set at 80% for 2015 would be increased to 95% for 2016.

Peter Gadsdon continued that progress on the action in the plan to address the recommendations in the ICO report were being monitored by the Information Governance Group which would discuss implementation and report to the Corporate Management Team (CMT).

In the discussion that followed, members raised questions about security of confidential data when officers were working from home, how freedom of information requests were being dealt with and also enquired about measures that the department had in place to prevent hacking into the Council's network system.

Raj Seedher responded that when working from home, the information was encrypted and stored centrally in the system which prevented accidental or deliberate breach of confidentiality. The prerequisite for a code number generated by the 'authenticator' was an additional measure to counter incidents of hacking. He added that a thorough review of the use of paper to be replaced with electronic devices for effective control was being put in place with an upgrade to a new system, "Mosaic". Members were advised that through the use of iCasework, freedom of information requests were being managed efficiently. In order to safeguard the Authority's financial portals, risk impact and security assessments coupled with robust penetration tests were being carried out to a level that matched industry best practice. The Director added that the Authority's software systems were being constantly upgraded to maintain security and integrity which was further enhanced with a quarterly departmental penetration tests and, annually through compliance with Sector Network code of connection standards. He also drew members' attention to benchmark figures with other London Boroughs as set out in the appendix attached to the report.

RESOLVED:-

- (i) that the Action Plan to address the audit recommendations;
- (ii) that it be noted that the Executive Summary of the ICO audit will be published on the ICO website.

**8. Internal Audit & Counter Fraud Progress Report for the period 1 August 2015 - 31 October 2015**

The Committee considered a report that provided an update on the progress against the internal audit plan for the period 1 August 2015 to 31 October 2015 together with summarises of those assurance reports from the 2014/15 plan finalised since the last meeting. The report also provided a summary of counter fraud work for the first two quarters of 2015/16 including October 2015.

Steve Tinkler (Head of Shared Internal Audit Service) introduced the report. He informed members that progress had been made and with a positive direction of travel, he was confident that the internal audit plan would be delivered on time. He continued that work had commenced on 39 of the 79 internal audit assignments included within the agreed 2015/16 plan (excluding follow up and advisory work) and 22 assignments completed to draft or final stage. He added that of the twenty two assignments, eighteen had an assurance opinion associated with them and four were in respect of non-assurance work including a grant and trust account certification.

The Head of Shared Internal Audit Service (Head of Service) clarified that a number of audits scheduled to be carried out in the first and second quarters were either also removed from the plan or as a result of request by management that they should be deferred. This was in part, a consequence of the structural changes within some departments, or system changes because the proposed assignments were similar to audits recently undertaken and would therefore constitute a duplication. He continued that in all such cases, the consequent available resources were re-allocated. He drew members' attention to the fraud findings which showed a significant recovery of social housing properties ahead of target,

positive work on right to buy and blue badge fraud cases, the latter in close collaboration with Brent Parking Services.

In respect of limited assurance reports for schools, Conrad Hall (Chief Finance Officer) stressed that the Council expected good governance, leadership and management of schools and where these were found lacking, a swift action would be taken to ensure that standards of financial controls were complied with. Reference was made to priority recommendations to Mitchell Brook Primary School and management responses together with deadline dates.

In welcoming the report, members expressed their appreciation to the entire internal audit team and asked Steve Tinkler to pass on their sentiments.

RESOLVED:

that the progress made in achieving the 2015/16 Internal Audit Plan and the review of fraud work be noted.

## 9. **Treasury Management Strategy**

Members considered a report which presented the draft Treasury Management Strategy for 2016/17. Conrad Hall (Chief Finance Officer) informed members that the final version of the strategy, incorporating the views of the Committee, would be included in the budget report to full Council meeting on 22 February 2016

The Chief Finance Officer continued that the Authority's current strategy was to maintain borrowing at the lowest level possible unless interest rate prospects presented a clear case for taking long term borrowing ahead of immediate requirements. According to a forecast by Arlingclose (the Authority's treasury management advisers), the official UK Bank Rate would remain at 0.5%, possibly into 2016 and therefore there was no current need to change the strategy. Any rise would then be relatively modest. He continued that officers would monitor developments with advice by Arlingclose together with due regard to other published information. Members heard that the Authority had £95.5m exposure to LOBO loans (Lender's Option Borrower's Option) of which £56.0m of these can be "called" within 2016/17 although within the current financial climate it was unlikely that these could be called in. It was noted that Brent currently held a historically high level of cash which has risen over the last three years due to unspent capital grants and Section 106 contributions, although this was likely to fall over time. The Chief Finance Officer advised members that the strategy for cash holding to generate high returns at a lower risk would be pursued.

The committee noted and agreed that for conventional treasury management activities the priority should remain to preserve capital over returns, rather than to chase higher returns for increased levels of risk. However, the committee recommended that officers consider alternative ways to leverage the council's balance sheet in order to invest in services that will also generate financial returns, either directly or through costs avoided.

RESOLVED:-

That the treasury management strategy be endorsed and that officers consider alternative ways to leverage the council's balance sheet in order to invest in services that would also generate financial returns, either directly or through costs avoided.

#### 10. **Internal Audit Planning 2016/17 – Outline Approach**

The Committee considered a report that provided members with details of the proposed approach for the development of the 2016/17 of the internal audit focus, from previous audit plans developed. Steve Tinkler (Head of Shared Internal Audit Services) informed members that for an effective Internal Audit function, the service would need to continue to demonstrate that it added value in the internal audit approach and the assurances provided. He meant to achieve this through the delivery of cross-cutting organisational reviews rather than the traditional delivery of service based Internal Audits. With that in view, the intention was to ensure that the 2016/17 Internal Audit plan included an element of focus on corporate / cross-cutting reviews. In order to deliver the reviews, the service would also seek to employ a range of internal audit techniques including 'embedded assurance' based reviews.

In addition to the above, a review of the audit approach within Schools was also being considered including the development of the approach by moving to the delivery of thematic based reviews, rather than the continued delivery of the existing audit program. He continued that with a thematic approach, each school would receive an individual Internal Audit report, however the findings of the thematic reviews would be consolidated into single reports which would provide an assurance opinion to Strategic Director Children's Services, the Chief Finance Officer (Section 151 Officer) and the Audit Committee on the effective management of the thematic risks within Schools.

Members were advised to contact Head of Shared Internal Audit Services directly if they had matters they wished to be considered for inclusion in the audit programme.

RESOLVED:

that the proposed approach for the preparation and focus of the 2016/17 Annual Operational Internal Audit Plan be noted.

#### 11. **Strategic Internal Audit Partner Procurement**

This report from the Chief Finance Officer provided an update on the status of the procurement exercise currently being undertaken by the LB Ealing to identify and appoint a Strategic Internal Audit Partner for the Shared Service. Steve Tinkler (Head of Shared Service) informed members that the creation of the Audit & Investigations Shared Service has however provided the opportunity to consolidate the arrangement into a single contract between LB Ealing and the Strategic Internal Audit Partner. He advised that the key driver was to deliver improvements in the overall effectiveness of the internal audit services, delivered through the introduction of innovation in the internal audit techniques employed, whilst also

maximising the use of technology and IT solutions to deliver wider levels of assurance wherever possible.

In order to promote and ensure the success of the procurement, a 'Procurement Supplier Day' was held in August 2015, in order to explain to potential suppliers the requirements and service standards expected. He continued that currently, a single stage procurement exercise was being completed and Invitations to Tender were issued during week commencing 20th December 2015. Tenders were due to be returned for evaluation at the end of January 2016 and supplier presentations will be held during February 2016, leading to the appointment of the successful supplier by the end of March 2016. Steve Tinkler advised the committee that the evaluation panel would comprise of senior representatives from Ealing, Brent and Hounslow.

RESOLVED:-

that the progress being made with regards to the procurement of a Strategic Internal Audit Partner by the Shared Service be noted.

## 12. **Audit shared service**

Members received a report from the Chief Finance Officer which provided details of the service specification agreed and included within the Formal Collaboration agreement which would govern and monitor the performance requirements placed on the Shared Service. Conrad Hall (Chief Finance Officer) informed members that the creation of a Shared Internal Audit Service with the London Borough of Ealing was approved at the Council meeting held on 22 June 2015. He continued that the formal legal Collaboration Agreement which was a legally binding agreement, outlined the full legal obligations placed on both parties with regards to the service standard expectations and performance requirements as set out in the service performance schedule appended to the report.

In the discussion that followed, Councillor Davidson whilst welcoming the shared service, suggested that it needed to be further expanded to include more partners. Questions were asked as to whether full consultation was undertaken prior to entering into the Collaboration Agreement and how the shared service would be audited.

The Chief Finance Officer cautioned against adding partners to the agreement too quickly due to increased risks and governance issues, but stressed that he was not against the principle at all. In addition, scoping work on Brent's approach to shared services was being conducted. Members heard that in addition to the performance indicators as set out in the schedule 1 of the agreement, the Shared Service was being monitored by the Chief Finance Officer, with weekly meetings with the Head of Audit & Investigations Shared Service.

RESOLVED:-

that the service specification and performance standards included within the formal collaboration agreement between the London Borough of Ealing and Brent be noted.

**13. Review of progress against previous KPMG recommendations**

Members received a report from the Chief Finance Officer which provided an update on the confidential report from KPMG regarding the operation of financial controls and how these could be strengthened. Conrad Hall (Chief Finance Officer) drew members' attention to appendix one to this report which showed the progress made in implementing KPMG's recommendations.

RESOLVED:-

that the contents of appendix one which provided outlining to the report from an update on KPMG's recommendations the Chief Finance Officer be noted.

**14. Corporate Risk Register**

Steve Tinkler (Head of Shared Audit and Investigation Service) introduced the report which presented the council's current Corporate Risk Register. He drew members' attention to the risk register (attached as appendix 1 to the report) which was last reviewed by the Committee at its meeting on 16 September 2015. Members were informed that since the last meeting, the Risk Management Group had met on two occasions, drawing members' attention to the changes made as set out in appendix 1 to the report.

In noting the report, members expressed concerns about the Council's inability to discharge its statutory duty to provide education to meet demand for school places which could raise issues about reputational damage and potential legal challenge that could follow.

Conrad Hall (Chief Finance Officer) informed members that the problem was not confined to Brent as it was an issue affecting all London boroughs due to population pressure, demographic changes and pressure on land for school buildings. The issue was being looked onto via the Pan London Services. He continued that Brent was able to offer school places to all applicants last September.

In the ensuing discussions, members generally felt that they were either not getting enough information or the information presented was not detailed enough. In response to a member's enquiry about the possibility of sharing the risk register of both boroughs of Ealing and Hounslow, Steve Tinkler stated that it would be possible to share Hounslow register but not Ealing's as their risk register was confidential under the Access to Information Act. The Chief Finance Officer stressed that the function of a risk register was to highlight potential risks in order that they could be managed, and that by definition the registers therefore contained negative items. Inclusion of a risk on the risk register does not mean that it will actually turn into a live issue.

RESOLVED:-

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

15. **Any other urgent business**

None.

16. **Date of next meeting**

to note that the next meeting would take place on 23 March 2016 at 6:30pm.

The meeting closed at 9.50 pm

D EWART  
Chair