



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT COMMITTEE Thursday 30 June 2016 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair), Councillor A Choudry (Vice-Chair) and Councillors Khan and Nerva

Also present: Councillors S Choudhary

Apologies for absence were received from: Councillors Naheerathan

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

None declared.

2. **Deputations**

None.

3. **Minutes of the previous meeting**

The following amendments were made to the minutes:

minute 5 - 1st paragraph - amend the sentence: He and drew attention to areas on which the audit would focus.... to read: Phil Johnstone drew attention to areas on which the value for money conclusions would focus....

- 1st paragraph - delete final sentence

- 2nd paragraph - 3rd sentence - amend 'Any errors would be reported....' to 'Material errors would be reported....'

minute 6 - 1st sentence amend 2014/2016 to read 2014/2015.

RESOLVED:-

that the minutes of the previous meeting held on 23 March 2016 be approved as an accurate record of the meeting subject to the above amendments being made. (amendments incorporated).

4. **Matters arising**

Corporate risk register

It was noted that the copy of the Hounslow risk register had been circulated and that the risk register would be reported in time for the next meeting of the committee.

5. **Date of next meeting**

The Chair explained that an earlier date was needed to the one scheduled for the next meeting of the committee. This would be arranged by the Democratic Services Manager.

6. Role of the Audit Committee

The Chair introduced the report which considered the arrangements in place for the Audit Committee and a plan for the year ahead.

Members recognised the important work carried out by the committee and felt that aspects of it needed to be more widely shared with all councillors and the wider community. The potential inter-action between the Audit Committee and the Council's Scrutiny Committees was referred to and it was agreed that the report should be updated to note this dynamic and the different roles that they played in the corporate governance structure.

The Chair referred to his own role as an independent member and the balance he had to bring to chairing the meeting and providing a critical independent view. He referred to paragraph 6 of CIPFA's Position Statement on Audit Committees attached as Appendix A to the report. This stated that the membership needed to be balanced, objective, independent, knowledgeable and properly trained. The need for independent properly trained and remunerated independent members was acknowledged. Discussion took place on what training/briefing sessions KPMG would be able to provide for members of the committee.

RESOLVED

- (i) that consideration be given to the committee producing an annual report for submission to Full Council;
- (ii) that efforts be made to attract suitably qualified independent person(s) to serve on the committee;
- (iii) that the Chief Finance Officer obtain suitable authority to recruit such person(s) on the basis of them being reasonably remunerated for the role;
- (iii) that consideration be given to the opportunities for training and development of all members of the committee, including seeking offers from suitable professional accountancy firms with whom the council has a working relationship.

7. Draft Statement of Accounts 2015/16

The Chair introduced the report presenting the draft Statement of Accounts. He thanked Ben Ainsworth (Finance Manager) and his team for the work put into producing them. The Chief Finance Officer emphasised the significant changes to the team that had prepared them resulting from staff reductions and highlighted to the committee that the team welcomed the audit process as a means of learning lessons from any errors that the accounts may contain. He noted that the underspend in 2015/16 was largely due to slippage on the capital programme and he felt the level of reserves were appropriate.

Ben Ainsworth explained the reduction shown in the Council's worth which was mainly due to pension liabilities and accounting for property, plant, equipment, vehicles and infrastructure. He stated that a note would be added to the accounts acknowledging that since the end of the financial year the EU referendum had taken place and that this was not considered to constitute a formal event after the balance sheet date, given the difficulty in quantifying its impact at this early stage. Ben Ainsworth also clarified to the committee that his staff were discussing with the auditor the proper accounting treatment for the changes made to MRP policy, and anticipated that some technical changes might be required to the draft accounts as a result.

In answer to questions about the level of reserves, Conrad Hall (Chief Finance Officer) stated that they were relatively low for a London borough and Phil Johnson (Director, KPMG) added that it would be important as times got tougher to effectively manage general reserves and earmarked reserves.

The Chair drew attention to note 30 of the draft accounts, which appeared on page 56 of the printed agenda, and asked officers to clarify the process by which the exit payment to the former HR Director had been agreed, as this was known to be a matter of interest to some members of the public.

Conrad Hall explained firstly that the Council acknowledged that the entire sequence of events reflected poorly on the Council. He added that the Council was not required to publish the figure, but had chosen to do so. Technically under regulations the note was only required to disclose the remuneration of the Chief Executive, officers reporting directly to the Chief Executive and statutory officers. The Council's former HR Director met none of these criteria in 2015/16, the year of account. Nonetheless, officers had decided to publish the figure because of the known interest in it, which was felt outweighed the statutory obligations.

In terms of process, Conrad Hall explained that in May 2015 advice had been sought from a leading QC specialising in employment law. The QC had been recommended by the Council's Monitoring Officer from a framework contract operated by the London boroughs legal alliance. His advice, in conference, had in summary been that the Council lacked good grounds to conduct a fair dismissal of the Council's former HR Director for a variety of reasons, and had it attempted to do so it was likely to have been found to have acted unfairly by an Employment Tribunal. Conrad Hall further advised that had such a course of action been attempted then the Council had been notified that a substantial claim would have been submitted by the former HR Director and that under those circumstances the decision had been taken to seek to settle matters by way of a compromise agreement. Conrad Hall added that the terms of the final settlement, essentially one year's salary plus notice, (which were broadly similar to payments to some other senior managers) had been notified to the external auditor. Whilst the auditor was not required legally to 'sign-off' such payments, he nonetheless had the power to intervene in cases where he felt the Council was acting inappropriately, for example if he considered the payment excessive. Phil Johnson confirmed this and that he had chosen not to exercise his powers to intervene. Conrad Hall concluded that the terms of the settlement had therefore been negotiated bearing the commercial considerations in mind. In response to a question from a member of the committee, Conrad Hall confirmed that the Council's former HR Director had not

been subject to disciplinary or capability proceedings, which would have been a decision of her then line manager.

Members asked why the situation had reached the point it had and further enquired of the process followed. The Chief Executive explained the circumstances at the time and pointed out the improvements that had since been made to the HR procedures concerned, as referenced in the Annual Governance Statement reported under item 9 on the agenda. The Chair suggested that consideration be given to what information could be made available on this matter that would provide a time line and demonstrate to members how lessons learnt had led to new improved procedures being introduced.

RESOLVED:

that the draft accounts be noted for submission for audit.

8. 2015/16 Treasury Management Outturn report

Members considered the report which updated them on Treasury Management activity and confirmed that the Council had complied with all its Prudential Indicators for 2015/16. This report would also be presented to the Cabinet and Full Council.

Gareth Robinson (Head of Finance) referred to the outcome of the EU referendum which would mean a period of uncertainty and possibly lower interest rates. Further discussions would take place and further predictions would be reported back. Conrad Hall (Chief Finance Officer) stated that there had been no change in the professional advice from Arlingclose on who the Council placed money with but the position was monitored closely. The position on the LOBO (Lender Option, Borrower Option) loans was discussed and it was noted that since publication of the agenda, three £5M LOBOs from Barclays had been converted to ordinary fixed rate loans at no cost to the Council.

A correction was made to paragraph 3.23 to amend the year shown to 2015/16.

RESOLVED:

that the 2015/16 Treasury Management outturn report be noted.

9. Draft annual governance statement 2015/2016

Steve Tinkler (Head of Audit and Investigation) introduced the report which set out the draft Annual Governance Statement (AGS) for 2015/16. He referred to the five significant governance issues shown in section 5 of the report which would be reviewed during the coming year.

RESOLVED:

that the draft AGS set out in appendix 1 to the report be approved for submission to the Chief Executive and Leader of the Council for signature.

10. Update report from external auditor (KPMG)

Steve Lucas (Senior Manager, KPMG) introduced the progress report which gave a high level overview on progress in KPMG delivering its responsibilities as the Council's external auditors. Of the identified risks listed in the report, it was reported that the first two were items auditors need to consider for all clients and not a particular concern in Brent and the other three were particular to Brent.

RESOLVED:

that the update report presented by KPMG be noted.

11. **Internal Audit Annual report 2015/2016**

Steve Tinkler (Head of Audit and Investigations) introduced the Annual Report which commented on the overall adequacy and effectiveness of the Council's internal controls and presented a summary of the audit work undertaken over the past year.

Specific mention was made of the ongoing work with the Torah Temimah school and the background to this was outlined to members. The committee agreed that if a satisfactory result from the audit was not forthcoming the Head and/or the Chair of the governing body should be requested to attend the next meeting of Audit Committee. Members queried what liaison took place with Ofsted if a school received an adverse report and Conrad Hall (Chief Finance Officer) undertook to look into this.

Members thanked the Audit team for their work and specifically for the fraud work that had resulted in the Council recovering 63 properties which had been sublet which was a significant 20% improvement on the previous year, which had itself been a year of high performance by the team.

The Chair noted the higher level of limited assurance opinions which were a concern and something the Council needed to be aware of.

RESOLVED:

- (i) that the report be noted;
- (ii) that action be taken to request the Head/Chair of the governing body of the Torah Temimah school to attend the next meeting of Audit Committee if the response to the audit is not satisfactory.

12. **Internal Audit Update report**

Steve Tinkler (Head of Audit and Investigations) introduced the report which updated the committee on audit activity since April 2016 and drew attention to the new initiatives the team were undertaking listed under paragraph 3.6 of the report. He added that an in depth review of Planning Services would also be undertaken.

RESOLVED:

that the report be noted.

13. **Any other urgent business**

None.

The meeting closed at 8.57 pm

D EWART
Chair