



Brent

LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT ADVISORY COMMITTEE Wednesday 20 September 2017 at 6.30 pm

PRESENT: Mr David Ewart (Chair), Mr Eugene Sullivan (Independent Member) and Councillors A Choudry (Vice-Chair), Davidson and McLeish

ALSO PRESENT: Councillors Choudhary, Crane and McLennan

1. **Apologies for absence and clarification of alternate members**

Apologies for absence were received from Councillors Naheerathan and Nerva (with Councillor McLeish substituting).

2. **Declarations of Personal and Prejudicial Interests**

David Ewart declared that he had worked together with Martin Smith, Chair of I4B Holdings Limited, at the London Borough of Ealing.

Councillor McLeish entered the meeting at 6:34 pm.

3. **Deputations**

There were no deputations received.

4. **Minutes of the previous meeting**

RESOLVED that the minutes of the previous meeting, held on 26 June 2017, be approved as an accurate record of the meeting.

5. **Matters arising**

(i) Planning Applications Audit Report

Conrad Hall confirmed that he would provide an update on the issue who had switched the System Audit Trial controls off and whether these had been turned on when the supplier had released the software to Brent Council by the Friday 22 September.

(ii) Draft Risk Management Strategy 2017-2019 and Strategic Risk Register

It was noted that an update on the Strategic Risk Register would be presented at a future meeting of the Audit Advisory Committee.

6. **Update on mobilisation and initial operation of I4B Holdings Ltd**

Conrad Hall (the Council's Chief Finance Officer) introduced Mr Martin Smith, Chair of I4B Holdings Ltd, and provided background information about the company. Mr Hall pointed out that I4B Holdings Ltd (I4B) was an investment company wholly owned by the Council, which was a distinct legal entity with its own Board of Directors. He reminded Members that it was in the remit of the Audit Advisory Committee to scrutinise I4B's financial models and forecasts and to consider governance matters that may arise.

Martin Smith presented the paper and said he would focus on four key areas – the degree to which the company was fulfilling its aims; finance; governance; and next steps.

Delivery against the company's original objectives

Mr Smith said that I4B was delivering against its aims – it was buying the right type of properties, it was a responsible landlord which provided good quality accommodation and it generated revenue for the Council. Setting up the necessary banking arrangements for the new entity was difficult and this had delayed the purchasing of properties to build the company's portfolio. Moreover, as it had been challenging to purchase a large number of properties in a short period of time and to refurbish them at the right pace, the aim of providing 300 units in 24 months might be achieved over 30 months. The Council had purchased properties on behalf of the Company which helped generate momentum. Mr Smith noted that the properties acquired so far deviated from the allocations in the Business Plan (Brent – 40%; Greater London – 10 %; Home Counties 50%), but it was expected that this would be rectified.

Finance

The Committee heard that the company had to generate net income through rent to pay its costs. Using the data gathered from the acquisition of 52 units, the financial model predicted that property purchase and acquisition costs for 300 properties would exceed the agreed funding limit of £100 million and there would be deviation from the preferred locations reflected in the original assumption. For example, there would be underachievement of properties in Brent and Greater London, with a surplus in other areas.

Governance

Mr Smith noted that the company had virtual infrastructure, with Service Level Agreements (SLAs) with Brent Council in place to allow council staff to complete work for I4B. Moreover, the company utilised the Council's Oracle system and shared a ledger with the Council. The advantage of such an arrangement had been that the company could use the Council's set of controls and avoided potential tension between the company and the shareholder. This had made it necessary to ensure that there was a clear distinction between decisions taken by the company and by the Council in its role as a stakeholder. Mr Smith emphasised that the primary objective of I4B was to reduce the number of households in temporary accommodation and the secondary objective was to increase the supply of affordable housing.

Next steps

The company would continue buying properties until the target of 300 was reached. In addition, it had explored a number of opportunities which could complement its landlord role, strengthen its Business Plan and deliver more benefits for the Borough. Councillor George Crane (one of the company's Directors) added that the I4B Directors were in a process of reviewing the Business Plan which they had inherited in the form it had been agreed by Cabinet. He referred to section 7 of the report (pages 25-26 to the Agenda pack) and highlighted that there were a number of opportunities for I4B to move forward.

A member of the Committee asked a question that related to the contingencies that had been put in place to mitigate losses if tenants were not able to pay their rents. Mr Smith explained that the rent charged by the company would be equal to the local housing allowance level. In addition, an allowance had been made for loss of income, but it had not been possible to test it as there had not been any properties which had experienced this. In the event of change of the interest rate, Mr Smith said that the governance arrangements that had been put in place would be applied – as I4B was a borrower from the Council at a fixed rate, changes in the interest rate would not be detrimental to the local authority. Mr Hall added that interest rates would be monitored and said that these were expected to raise sooner than previously forecasted. He advised the Committee that the overall Treasury Strategy ensured that the Council's accounts were balanced, but pointed out that the Council was more likely to enter into borrowing arrangements in the next 18 months in which case changes in interest rates would affect Brent's position.

A Councillor who was attending the meeting as a member of the public referred to paragraphs 5.8 and 5.9 of the report (pages 22 and 23 to the Agenda pack) and questioned the way properties would be distributed. In response, Mr Smith said that the company had to start buying units as soon as possible. The main criterion which had been taken into account was whether a property was worth buying. He explained that for the yield that had been estimated, it was not possible to find any properties in the borough so other areas had been considered. The yield had been balanced in such a way that low yield properties in Brent were balanced by high-yield properties outside the borough. Mr Smith estimated that once the company's portfolio had been completed, the division of properties would be expected to match the original Business Plan. Peter Gadsdon (the Council's Director of Performance, Policy and Partnerships and one of the I4B's Directors) seconded this view and said that the Directors were confident that they could manage the process in such a way that the company would acquire more properties in Brent than anticipated. The Committee heard that the Directors hoped that in the longer term the portfolio of I4B would be worth more than what it had been spent on it. It was highlighted that the company did not aim to make significant profit and that any revenue savings would belong to the Council.

Mr Sullivan commented that the Audit Advisory Committee had been tasked with giving assurance to the Cabinet and noted that the Committee had to be sure that the elements were in place for it to discharge its duty. He said that although the report was very informative, the contents were more suitable for a meeting of the Council Management Team (CMT) or the Housing Scrutiny Committee. He stressed the importance of internal audit and requested that information on Key Performance

Indicators (KPIs) and risks was included in future reports. The Chair reminded Members that the Committee had the right to request the company to be audited internally if Members considered this to be necessary, and would need to be able to rely on audits commissioned by the Company. In response, Mr Smith said I4B had commissioned internal audit provision from the Council's Internal Audit and Investigation Service (via their contracted partner –PricewaterhouseCoopers). I4B were content, once internal audit reports had been finalised that they would be shared with the stakeholder.

A Member of the Committee enquired whether the Directors present at the meeting were in agreement with the contents of the Business Plan and asked if there was anything specific they disagreed with. Mr Smith responded that the Directors accepted it, noting that it was a dynamic model that guided the company. Carolyn Downs (the Council's Chief Executive) added that the process outlined in the Business Plan could be changed to implement the lessons learned and improve the performance of the company, but amendments had to be signed by CMT and agreed by Cabinet.

RESOLVED that the contents of the Update on mobilisation and initial operation of I4B Holdings Ltd report, be noted.

*Councillor Davidson entered the meeting at 7:11 pm.
Councillor Crane left the meeting at 7:14 pm.*

7. **Review of the Member Learning and Development Programme**

Tom Cattermole (the Council's Head of Executive and Member Services) presented the report which provided Members with a summary of the Member Development Programme and the activities carried out over the last year. Mr Cattermole drew the Committee's attention to paragraph 3.4 (pages 62-63 to the Agenda pack) which contained information about the training sessions delivered since May 2016 as well as further scheduled sessions until the end of the calendar year and invited Members to raise any questions they had.

The Chair congratulated Mr Cattermole and his team for continuing to meet the standard of the London Charter Plus for Elected Member Development which had been reconfirmed following an interim visit in October 2016. He enquired whether the programme represented good value for money. In response, Mr Cattermole said that the budget for Member training was currently £17,000 which was relatively small compared to other local authorities, but the return on investment was good in terms of feedback received, and additional money had been aside for the induction of new Members in 2018, which would be crucial given the fact that in 2014 50% of Members were newly elected.

RESOLVED that the contents of the Review of the Member Learning and Development Programme report, be noted.

8. **External Audit Progress Report**

Andrew Sayers (Partner at KPMG) presented the report which summarised the audit activities undertaken by KPMG in the period June 2017 to September 2017 (page 70 to the Agenda pack). The Committee heard that KPMG had issued five

separate provisional view letters, along with material documents KPMG relied upon, on the objections relating to the payment made to the former Human Resources Director. Mr Sayers said that KPMG had received responses from the electors and the Council which had been reviewed along with any additional information provided. Moreover, KPMG had received from Brent Council initial evidence for the processes and controls in place for one of the LOBO loans. This was examined to determine if the type and level of detail provided would be sufficient, before the Council used resources to locate evidence for the other loans.

Members of the Committee asked questions that related to the additional fees incurred by the investigation of the six objections to the 2015/2016 accounts. Mr Sayers said that the fees up to date were approximately £12,000 and said that the figure could change depending on future work carried out in relation to the objections. In response to a request for more details about the work undertaken, Mr Sayers explained that the fee depended on the time it took KPMG to examine various pieces of information, such as documents provided by the objectors. He emphasised that failure to do so could result in the company being taken for a judicial review. A Member of the Committee enquired from which budget the additional fee would be paid and Conrad Hall (the Council's Chief Finance Officer) explained that although this was not clear at this stage, fees were usually covered by the corporate budget rather than by a particular service.

Committee Members, including the Independent Member, questioned the length of time it had taken to examine the objections. Mr Sayers explained that there had been a lot of correspondence with the objectors and reminded the Committee that there had been discussions about the documents that could be shared with them. In addition, there had been periods of inactivity when the auditor had to wait for information to be provided. Mr Sayers assured Members that an account of the time it had taken to investigate the objection would be provided.

The Chair encouraged KPMG to continue with the investigation into the objections as soon as possible.

RESOLVED that the contents of the External Audit Progress Report, be noted.

9. **Statement of Accounts 2016/17 and External Auditor's Report**

Conrad Hall (the Council's Chief Finance Officer) reminded Members that the Statement of Accounts had been presented to the Audit Advisory Committee at the meeting on 26 June 2017. He informed the Committee that amendments had been identified and the necessary adjustments had been made which had not led the Council and the external auditor to change their view of Brent's financial position. Andrew Sayers (Partner at KPMG) said that based on the current position KPMG intended to give unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion. There had been no unadjusted audit differences, but there had been two adjusted audit differences and one adjustment relating to an update of an estimate which had been made when preparing the accounts. Mr Sayers drew Members' attention to pages 9 and 10 to the Agenda pack which outlined the work KPMG had done in response to areas of significant risk. One objection to the 2016/2017 accounts had been received, KPMG had completed some initial enquires and would be deciding whether they would accept the objection. Moreover, KPMG had not identified any significant value for money

risks but had identified financial resilience as an area for audit focus. Mr Sayers said that KPMG had considered the level of prudence in key judgements in Brent's financial statements and these had been classified as 'balanced' (pages 88 and 89 to the Agenda pack).

Mr Sayers highlighted that KPMG was independent from Brent Council and commented that the representation letter (pages 105-111 to the Agenda pack) was broadly standard and that a similar letter had been presented to the Audit Committee in September 2016.

Members of the Committee asked questions that related to the level of reserves and whether they were adequate. In response, Mr Sayers said that he was comfortable with the level of Brent's reserves and he would have brought any concerns to the Committee's attention. Mr Hall added that in his view the level of the unallocated general reserve was sufficient and noted that the Council had a good record of staying within its budget and using its reserves sensibly. A Member enquired why Section 106 balances were shown as the same at the end of 2015/2016 as at the end of 2016/2017. In response, Benjamin Ainsworth (the Council's Finance Manager – Capital) said that he would be able to provide an explanation outside the formal meeting which would be circulated to the Committee.

The Chair thanked KPMG and Mr Ainsworth and his team for their work on the Statement of Accounts.

RESOLVED that:

- (i) The contents of the Statement of Account 2016/17 and External Auditor's Report, be noted; and
- (ii) The Audit Committee be recommended to:
 - o Approve the statement of accounts
 - o Approve the letter of representation to KPMG

10. 2017/18 Mid-Year Treasury Report

Sawan Shah (Finance Analyst – Treasury at Brent Council) presented the report which provided updates on recent treasury management activity. He said that growth in the UK economy had slowed in 2017 in comparison with both the US and Eurozone (0.6% compared to 0.3% respectively). Brexit remained one of the biggest uncertainties for the economy, with consumer spending being weakened by the effects of inflation. The Bank of England had decided to keep the interest rates at 0.25% and Mr Shah pointed out that the interest rate the Council received on money market funds had fallen since the previous report and 12-month maturities with local authorities had fallen from 0.6% to 0.4%. In relation to borrowing, he noted that the Council was in a stable borrowing position with no short-term borrowing and a decrease of long-term borrowing. However, Mr Shah referred to the Council's cash balance graph on page 117 to the Agenda and said towards the end of 2018, the Council would be borrowing.

Only £0.2 million of the original £10 million Icelandic Bank deposit remained outstanding and there had been a £7 million upward movement in short-term investments which was lower compared to the same period last year. Spending on

housing had a significant impact on Brent's cash flows with over £25 million spent to date.

A Member of the Committee asked why the Council was not in a position to pay off loans quicker. Mr Shah explained that the persistence of low interest rates meant that it would be uneconomic to reschedule debt. He gave an example with the Council's most expensive loan of £3.05 million at a rate of approximately 9%. Repaying it earlier would cost £0.935 which would incur a 30% premium on the value of the loan. In relation to a question about the Council's cash reserves, Mr Shah said that the local authority was required to keep a certain level of cash so suppliers could be paid on a day-to-day basis.

The Independent Member thanked Mr Shah for the report and asked how long Arlingclose had been advising the Council for and what the authority future intentions were. Conrad Hall (the Council's Chief Finance Officer) said that Arlingclose had been advising Brent for approximately eight years with their contract expired in March 2018. Mr Hall said that the contract would go for tendering and an update would be provided in the next couple of months.

RESOLVED:

- (i) The contents of the 2017/18 Mid-Year Treasury Report, be noted;
- (ii) The 2017/18 Mid-Year Treasury Report be forwarded to the Cabinet and Council for their consideration.

11. Public Sector Audit Appointments Consultation on Auditor Appointment from 2018/19

Conrad Hall (the Council's Chief Finance Officer) reminded the Committee that Full Council decided in January 2017 to accept the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the appointment of external auditors for five financial years commencing 1 April 2018. He said that PSAA had produced provisional allocations of auditors to authorities and were consulting on these allocations. The Committee heard that the provisional allocation for Brent Council was Grant Thornton (UK) LLP and the deadline for receiving comments or objections was 22 September. Mr Hall noted that his advice would be endorse the appointment.

There were no further comments and it was **RESOLVED** that the Chief Finance Officer's positive response to the PSAA Consultation be noted and endorsed.

12. Capital Programme Update

Althea Loderick (the Council's Strategic Director of Resources) introduced the report which reviewed the delivery of the Capital Programme and outlined the changes that had been made to improve performance, forecasting and governance. Ms Loderick said that it was fair to acknowledge that there had been a significant underspend in the previous two years. She informed Members that a number of pieces of work had been undertaken to keep the Capital Programme on track and reduce underspending. The Programme Management Office (PMO), including the Capital Programme, had moved to the Capital Finance Team which had enabled the undertaking of more realistic profiling for future years, leading to reducing underspending in the current forecast. Ms Loderick noted that the focus had been

shifted to enabling Procurement, Project Management and Planning to work closely with each other so schemes could be expedited if necessary.

The Independent Member commented on the 2017-2018 Forecast for the Housing Care Investment Board and the Schools Programme Board (page 128 to the Agenda pack) and said that he was satisfied with the figures as long as managers were comfortable with the forecast. Gareth Robinson (the Council's Head of Finance – Accountancy) explained that the Cabinet set the budget which had to be approved by Full Council. He said that due to the fact that there were multiple projects on the Capital Programme, there was some flexibility of spending as areas of underspending could compensate for areas of overspending. In addition, sometimes it was possible for an expenditure to be incurred earlier than planned but this had to be authorised by a Strategic Director. Ms Loderick added that any requests were scrutinised by the Council Programme Board which was chaired by her. She emphasised that changes to the Programme were done lightly and they had to fit its budget.

It was **RESOLVED** that the contents of the Capital Programme Update report, be noted.

13. Internal Audit and Counter Fraud Progress Report for the period 1 April - 31 August 2017

Michael Bradley (the Council's Head of Audit and Investigations) presented the paper which provided an update on the progress against the internal audit plan for the period 1 April 2017 to 31 August 2017. Mr Bradley said that ten reports from the 2016/2017 audit plan had been finalised since the last meeting of the Committee. Four had 'reasonable' assurance; three had 'limited' assurance; and the remaining three had 'no assurance' reviews. Mr Bradley noted that detailed information was available in Appendix 1 (page 144 to the Agenda pack). In relation to the 2017/2018 audit plan, Mr Bradley noted that work had commenced on eleven out of the sixty-two audit projects. He reminded the Committee that the audit plan was a flexible document which was adapted to meet changing risks – for instance, some audit projects had been removed while others had been added since the plan was agreed by the Committee. Moreover, there were items which had been deferred or amalgamated. The Chair prompted Members to express disagreement with any of the changes that had been made, but no comments were made.

Mr Bradley drew the Committee's attention to page 137 to the Agenda pack which provided information on follow up of 2015/2016 and 2016/2017 audit recommendations. Members heard that there were 11 Priority 2 recommendations in 2015/2016 which had not been implemented. Mr Bradley stated that the approach to follow up audits had changed for 2017/2018, with Internal Audit carrying out follow up work to determine the extent to which agreed high- and medium-priority recommendations had been implemented by management. The Chair commented that he liked the new approach and this view was shared by Members.

Mr Bradley expressed concern that although less internal fraud referrals had been received, this did not mean that levels of fraud had decreased. He said that measures would be taken to address this, which was welcomed by Members. In response to a question about the reason for the doubling of the 'other positive

outcome' fraud under Internal Fraud (table 8 on page 139 to the Agenda pack), Mr Bradley said this was due to the good work carried out by the investigations team.

There were no further questions and it was **RESOLVED that** the progress made in delivering the 2017/2018 Internal Audit Plan and the counter fraud work in the period 1 April – 31 August 2017, be noted.

14. **Public Sector Internal Audit Standards (PSIAS) Action Plan**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which informed Members of the result of the self-assessment of the Internal Audit Service against the Public Sector Internal Audit Standards (PSIAS). He said that he had undertaken a self-assessment in August 2017 against a checklist that had been developed by the 'Relevant Internal Audit Standard Setters' and incorporated the requirements of the PSIAS as well as the Local Government Association Note (as developed by the Chartered Institute of Public Finance and Accountancy).

Mr Bradley highlighted that while a majority of the requirements were met, the Internal Audit Service was not yet fully compliant with the PSIAS and said that Appendix 1 (page 163 to the Agenda pack) outlined the actions that would be taken to rectify this prior to the Peer Review in the spring of 2018. Mr Bradley explained that the spring of 2018 was a good time to have a Peer Review as the Service was undergoing a restructure at present. In Mr Bradley's opinion, some of the areas that required examination were the Service's work arrangements, the way it connected with the rest of the Council and the way risk was perceived.

The Independent Member commented that the Quality Assessment and Action Plan would ensure that the performance of the Service met Mr Bradley's standards. There were no further contributions and it **RESOLVED that** the contents of the proposed Action Plan, be noted.

15. **Fire Servicing, Maintenance and Responsive Repairs of Fire Installations (Brent Housing Partnership) - Follow of Implementation of Recommendations**

Michael Bradley (the Council's Head of Audit and Investigations) said that the update on the status update on the implementation of the recommendations in the 2015/2016 internal audit report on 'Fire Servicing, Maintenance and Responsive Repairs of Fire Installations' had been requested by Members at the meeting in June 2017. He informed Members that out of the sixteen recommendations included in the 2015/2016 paper, ten had been fully implemented, one had been partially implemented and one had not been applicable as no action had to be taken to address it. The Committee heard that outstanding actions were listed in Appendix A (page 181 to the Agenda pack) and management had indicated that the respective recommendations would be implemented by the end of October 2017.

A Member of the Committee spoke about a report in the media on the roof of a ten-storey building which was not been compliant with fire safety regulations and enquired if the Council had been aware of it. Carolyn Downs (the Council's Chief Executive) said that attempts had been made to get in touch with the reporter, but these were not successful. She said that there were concerns about the cladding and insulation of a building, but all occupants had been notified and 24-hour cover

of public areas in the building had been provided. In relation to Brent Housing Partnership's (BHP) tower blocks, Ms Downs informed the Committee that risk assessments had been carried out for all buildings. Fire experts had been re-commissioned to re-assess the tower blocks and they had confirmed that all buildings were compliant with fire safety regulations. She highlighted that there had been issues with funding for improvement works as if buildings met the requirements and the local authority wanted to implement further measures, it was its responsibility to cover the cost of the works. Ms Downs said that the Leader and she had written to the Secretary of State, but they had not received a response.

The Committee noted its appreciation for the work of Peter Gadsdon (the Council's Director of Performance, Policy and Partnerships) and his team and their engagement in the Brent Connects forums.

It was **RESOLVED that** the contents of the Fire Servicing, Maintenance and Responsive Repairs of Fire Installations (Brent Housing Partnership) - Follow up of Implementation of Recommendations report, be noted.

16. **Review of the Frequency of Audit Advisory Committee Meetings**

David Ewart (the Committee's Independent Chair) addressed the Committee suggesting that it would be beneficial if the number of meetings was increased to reflect the additional workload for the Committee as a result of the transfer of the housing management service back in-house and the creation of I4B Holdings Ltd (an investment company wholly owned by the Council). He recommended that the Committee agreed to increase the number of its meetings by up to two, with one of the additional meetings taking place prior to the next scheduled meeting in January 2018 (subject to compliance with the Annual Calendar of Meetings).

RESOLVED that:

- (i) An additional meeting of the Audit Advisory Committee be scheduled to take place between October 2017 and January 2018, subject to compliance with the Annual Calendar of Meetings;
- (ii) The Governance Officer supporting the Committee, be authorised to organise a meeting as outlined in (i); and
- (iii) Provisions be made for up to two additional meetings to be scheduled in the 2018/2019 Annual Calendar of Meetings.

17. **Audit Advisory Committee Forward Plan**

The Committee noted that the Audit Advisory Committee Forward Plan would need to be amended to reflect the new accounting regulations coming into force in 2018.

RESOLVED:

- (i) Audit Advisory Committee Forward Plan be noted; and
- (ii) Audit Advisory Committee Forward Plan be revised by the Chief Finance Officer, the Head of Audit and Investigation and the Governance Officer supporting the Committee to reflect:

- The scheduling of an additional meeting as resolved under item 16 of this document
- The changes to accounting legislation due to come into force in 2018.

18. **Any other urgent business**

None.

The meeting closed at 8.36 pm

DAVID EWART
Chair