



Audit Advisory Committee

Wednesday 20 September 2017 at 6.30 pm

Boardrooms 7&8 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

Mr Ewart (Chair)

Mr Sullivan

Councillors:

A Choudry (Vice-Chair)

Davidson

Dixon

Naheerathan

Nerva

Substitute Members

Councillors:

Hoda-Benn, Long, McLeish and Pavey

Councillors:

Kansagra and Maurice

For further information contact: Nikolay Manov, Governance Officer

Tel: 020 8937 1348, Email: nikolay.manov@brent.gov.uk

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting.

Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also a Prejudicial Interest (i.e. it affects a financial position or relates to determining of any approval, consent, licence, permission, or registration) then (unless an exception at 14(2) of the Members Code applies), after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences** - Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

- (a) Anybody of which you are a member or in a position of general control or management, and:
 - To which you are appointed by the council;
 - which exercises functions of a public nature;
 - which is directed is to charitable purposes;
 - whose principal purposes include the influence of public opinion or policy (including a political party or trade union).
 - (b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;
- or

A decision in relation to that business might reasonably be regarded as affecting, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral ward affected by the decision, the well-being or financial position of:

- You yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who employs or has appointed any of these or in whom they have a beneficial interest in a class of securities exceeding the nominal value of £25,000, or any firm in which they are a partner, or any company of which they are a director
- any body of a type described in (a) above

Agenda

Introductions, if appropriate.

| Item | Page |
|--|---|
| 1 Apologies for absence and clarification of alternate members | |
| 2 Declarations of interests Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary, personal or prejudicial interests in the items on this agenda and to specify the item(s) to which they relate. | |
| 3 Deputations (if any) To hear any deputations received from members of the public in accordance with Standing Order 69. | |
| 4 Minutes of the previous meeting To approve the minutes of the previous meeting as a correct record. | 1 - 14 |
| 5 Matters arising (if any) To consider any matters arising from the minutes of the previous meeting. | |
| 6 Update on mobilisation and initial operation of I4B Holdings Ltd The report provides an update from the Board of I4B Holdings Ltd on the progress it has made in mobilising the company and delivery against its business plan. | 15 - 60 |
| Ward Affected: All Wards | Contact Officer: Conrad Hall, Chief Finance Officer Tel: 020 8937 6529 Email: conrad.hall@brent.gov.uk |
| 7 Review of the Member Learning and Development Programme The paper outlines the member learning and development sessions delivered for members since May 2016, as well as the current quarter of the member learning and development programme (June to December 2017) and the Member induction programme to be delivered following the May 2018 Local Elections. | 61 - 68 |

Ward Affected:
All Wards

Contact Officer: Peter Gadsdon, Director
Performance Policy and Partnerships
Tel: 020 8937 1400
Email: peter.gadsdon@brent.gov.uk

8 External Audit Progress Report 69 - 72

The report summarises the auditing activities undertaken by KPMG in the period June 2017 to September 2017 and provides an overview of actions to be completed by the next meeting of the Audit Committee.

9 Statement of Accounts 2016/17 and External Auditor's Report 73 - 112

To be considered under the remit of the Audit Committee (a separate agenda has been issued).

The Audit Committee is asked to review the report to those charged with Governance from KPMG and:

- consider the key issues and recommendations
- consider the corrected audit differences
- approve the statement of accounts
- approve the letter of representation to KPMG

10 2017/18 Mid-Year Treasury Report 113 - 122

The report updates Members on recent treasury activity.

Ward Affected:
All Wards

Contact Officer: Conrad Hall, Chief Finance Officer
Tel: 020 8937 6529
Email: conrad.hall@brent.gov.uk

11 Public Sector Audit Appointments Consultation on Auditor Appointment from 2018/19 123 - 126

Full Council decided in January 2017 to accept the invitation of Public Sector Audit Appointments Ltd (PSAA) to opt into a sector led option for the appointment of auditors for five years from 2018/19. PSAA have produced provisional allocations of auditors to authorities, and are consulting on these allocations.

The paper outlines the proposal for Brent Council and the Chief Finance Officer's planned response to the consultation.

Ward Affected:
All Wards

Contact Officer: Conrad Hall, Chief Finance Officer
Tel: 020 8937 6529
Email: conrad.hall@brent.gov.uk

12 Capital Programme Update

This update was requested by the Audit Advisory Committee in June and reviews the delivery of the Capital Programme and the changes that have been made to improve performance, forecasting and governance.

Ward Affected:
All Wards

Contact Officer: Althea Loderick, Strategic
Director - Resources
Tel: 020 8937 1564
Email: althea.loderick@brent.gov.uk

13 Internal Audit and Counter Fraud Progress Report for the period 1 April - 31 August 2017 133 - 158

The report provides an update on the progress against the internal audit plan for the period 1 April 2016 to 31 August 2017 and a summary of counter fraud work for the first quarter of 2017/18. The appendix to the paper summarises those audits from the 2016/17 plan which have been finalised since the last meeting of the Committee.

Ward Affected:
All Wards

Contact Officer: Conrad Hall, Chief Finance
Officer
Tel: 020 8937 6529
Email: conrad.hall@brent.gov.uk

14 Public Sector Internal Audit Standards (PSIAS) Action Plan 159 - 178

The paper informs Members of the result of the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

Ward Affected:
All Wards

Lead Member: Councillor
Contact Officer: Conrad Hall, Chief Finance
Officer
Tel: 020 8937 6529
Email: conrad.hall@brent.gov.uk

15 Fire Servicing, Maintenance and Responsive Repairs of Fire Installations (Brent Housing Partnership) - Follow of Implementation of Recommendations 179 - 206

As requested at the June 2017 meeting of the Audit Advisory Committee, an update on the status of the implementation of the recommendations in the 2015/16 internal audit report on 'Fire Servicing, Maintenance and Responsive Repairs of Fire Installations' is presented for consideration by Members.

Ward Affected:
All Wards

Contact Officer: Conrad Hall, Chief Finance
Officer
Tel: 020 8937 6529

Email: conrad.hall@brent.gov.uk

16 Review of the Frequency of Audit Advisory Committee Meetings

To consider a proposal from the Chair to increase the number of meetings in order to consider items on the Forward Plan in greater detail.

17 Audit Advisory Committee Forward Plan

207 - 208

18 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 64.

Date of the next meeting: Wednesday 10 January 2018



Please remember to ***SWITCH OFF*** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT ADVISORY COMMITTEE

Monday 26 June 2017 at 6.30 pm

PRESENT: Mr David Ewart (Chair), Mr Eugene Sullivan (Independent Member) and Councillors Davidson, Long, Naheerathan and Nerva

ALSO PRESENT: Councillor McLennan

The Chair welcomed everyone to the meeting and explained the order in which the agenda items would be considered.

The Chair asked everyone to introduce themselves as this was the first meeting of the new Audit Advisory Committee and it was Michael Bradley's (the Council's Head of Audit and Investigation) first meeting.

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

Apologies for absence were received from Councillors A Choudry (with Councillor Long substituting) and Dixon.

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

None.

3. **Deputations (If Any)**

There were no deputations received, but Nikolay Manov (Governance Officer at the London Borough of Brent) informed the Committee that Mr Phillip Grant had requested to address the Committee in relation to Agenda Item 7. This had been agreed with the Chair.

4. **Minutes of the previous meeting**

RESOLVED that the minutes of the previous meeting, held on 20 March 2017, be approved as an accurate record of the meeting.

5. **Matters arising**

(i) ***Internal Audit Report – Torah Temimah Primary School***

Conrad Hall (the Council's Chief Finance Officer) informed the Committee that the school had not been able to obtain the outstanding qualification in the time between the meeting of the Audit Committee in March 2017 and the middle of June 2017. He said that he would update the Audit Advisory Committee once he received a confirmation that the qualification had been achieved.

(ii) Planning Applications Audit Report

The Chair said that it was still unknown who had switched the System Audit Trial controls off and that the Committee had to know whether these were turned on when the supplier had released the software to Brent Council. Conrad Hall, the action's owner, confirmed that he was awaiting formal information and that he would inform the Committee accordingly.

(iii) Annual Report on Grant Claims and Returns

It was noted that an officer from Housing Benefit was in attendance to provide an update on the monitoring of self-employed income assessments carried out under the department's improvement plans for this high risk area as identified in KPMG's Annual Report on Grant Claims and Returns.

The Chair clarified that this matter would be discussed under Item 14 to the Agenda.

(iv) Improving the Working of the Committee

A Member of the Committee enquired about the existing arrangement for reporting to Full Council. The Chair explained that the Vice-Chair, who was the most senior Elected Member, would report at each meeting of Full Council. In addition, he confirmed that a training session had taken place the week before for all Members of the Committee and an Annual report would be presented to Full Council.

6. Order of Business

RESOLVED that the order of business be amended as set up below.

7. Draft Risk Management Strategy 2017-2019 and Strategic Risk Register

The Audit Advisory Committee formally welcomed Michael Bradley (the Council's Head of Audit and Investigation) who introduced himself and spoke of his professional experience.

Carolyn Downs (the Council's Chief Executive) delivered a presentation on Fire Safety in High Rise Tower Blocks and outlined her involvement in the cross-London response to the fire at Grenfell Tower tragedy. She said that Brent was supporting the Grenfell Tower Response Team set up by London Gold emergency planning and fire resilience colleagues in providing humanitarian response to the disaster. She compared the fire to the attacks on 7 July 2005 and pointed out that one of the main differences was that people had lost their homes and had been displaced completely. She highlighted that the situation was ongoing and pointed out that any council (both nationally and locally) would not have been able to cope with the situation on its own, especially as resilience had diminished. Ms Downs stated that Brent had to prepare for its response going forward which would require the Audit Advisory and the (Housing) Scrutiny Committees to work together.

Ms Downs informed the Committee that the response in Brent started on the first day after the fire by checking if any buildings with cladding in the Borough existed.

She said that both the Council's own housing stock and registered providers' properties had been checked. 100% of the 37 high rise (over five storeys) blocks had been assessed and all of them were compliant with fire safety regulations. Ms Downs stressed that Brent had never used Rydon Limited or Harley Facades Limited (the companies involved in renovating Grenfell Tower) and that more than £10 million had been spent in the last four years on reducing the risk of fires in council-run properties in Brent. The Committee heard that there was only one block with cladding (Watling Gardens) where extra checks had been implemented and a meeting had been held with residents and the manufacturer of the cladding which was made of different material from the one used at Grenfell Tower. In relation to high rise blocks, managed by registered housing providers, Ms Downs said that Elizabeth House, managed by Octavia, had some cladding which was of the same type and she had contacted Octavia Housing, the Member of Parliament and central government. Assurance had been given to the residents that there had been no need to evacuate the building and that it was fire safety compliant, with sprinklers fitted in every room and special equipment designed to extract smoke from stairways being fitted. In addition, officers had checked building control documents and it had been confirmed that officers had authorised what they believed to be entirely compliant cladding.

One of the main developers in Brent, Quintain, had confirmed that all new build blocks met fire safety standards. However, Ms Downs pointed out that there was an issue associated with permitted developments as these did not need to go through the planning process in the same way as major developments. She emphasised that this was an area of concern due to the deregulation which had taken place and that government, not council legislation, was responsible for checking fire safety.

Ms Downs spoke of the support provided to the Grenfell Tower Response Team – 122 members of staff had been in contact with the local authority or had volunteered to support the response and recovery stages, with 30 core staff supporting the Grenfell Tower Response Team. Ms Downs praised the calm and professional approach demonstrated by all Brent employees and ensured the Committee that Brent had responded as well as it could have.

A member of the Committee noted that there had been a lot of information on the Council's website about fire safety and pointed out that it could be useful to publish information when the webpage had been last updated.

Members of the Committee commented that the Brent Housing Partnership audit had achieved no assurance so this could be included in the Committee's agenda. It was pointed out that lessons learned were important in terms of risks associated with building control and incident response. A Member of the Committee asked a question that related to fire safety in block of flats of five or less storeys. Ms Downs responded that the newly-established Housing Scrutiny Committee would look at the matter. She acknowledged that building control had become more complicated since the deregulation as it was difficult to define clear lines of responsibility as building control was not exercised only by the local authority. Therefore, the issue of recording and archiving building control decisions would be examined.

In response to a question that related to the factors affecting the decision to evacuate a building, Ms Downs explained that the Fire Brigade was key to making

such a decision, with a number of factors taken into account alongside cladding, including overcrowding which existed in both social and private housing.

The Chair reminded the Committee that fire safety audit had resulted in a nil assurance report and requested an update to be provided at the next meeting.

RESOLVED:

- (i) The Audit Advisory Committee's deepest sympathy for the people affected by the fire at Grenfell Tower be formally recorded;
- (ii) The Audit Advisory Committee's gratitude to Ms Downs and Brent Council's staff for the work they had been doing be formally recorded; and
- (iii) An update on fire safety assurance be provided at the meeting of the Audit Advisory Committee in September 2017.

The Chair invited Michael Bradley (the Council's Head of Audit and Investigation) to introduce the rest of the Draft Risk Management Strategy 2017-2019 and Strategic Risk Register report. Mr Bradley said that review of arrangements reported at the March Audit Committee, had given positive assurance regarding the management of risk. However, he noted that opportunities to strengthen arrangements had been identified - in particular ensuring that communication between interrelated risks at the operational level was enhanced and that risk was linked more closely to performance data ensuring that it was monitored and reported. The Committee heard that the Risk Management Strategy had been refreshed with some key principles in mind – the process had to be as simple and efficient as possible; guidance had to be reviewed as part of the implementation plan; and risk management had to be visible to other Members, including the Cabinet. Mr Bradley said that an implementation plan had been drafted (included in Appendix B to the report) to support the new strategy. In relation to the Strategic Risk Register, Mr Bradley said that it had been developed with risks linked to the objectives outlined within the Council's 2020 Vision, with input from the Council's Performance Team, Risk Management Group, Internal Audit and Corporate Management teams. Moreover, it would be possible to enter risk at both departmental and corporate level. Mr Bradley drew Members' attention to paragraph 4.10 of the report on page 73 to the Agenda Pack and noted that the inherent risks would be incorporated into the Strategic Risk Register when net or mitigated risk ratings were deemed to be of a level that exceeded the appropriate tolerance (rated as over 20).

The Independent Member commented that the policy statement was in line with good practice. However, he said that the Strategic Risk Register felt like work in progress and pointed out that some risks had not been included as they had not been identified as high risk, which was contrary to his preference of having all risks included in the list. In addition, the Chair commented that the document was a good start, but additional actions had to be completed.

A Member of the Committee enquired if any changes had to be made to the Risk Management Strategy, having in mind the fire at Grenfell Tower and the aftermath of the disaster. Mr Bradley confirmed that changes may be needed, but emphasised that these would be known at a later stage. In response to a question that related to risks affecting decisions taken by the Local Authority, Mr Bradley said

that risk awareness should be embedded and considered when projects were discussed. This led to a question to the external auditor, KPMG, about what is examined when external auditing was carried out. Andrew Sayers (Partner at KPMG) said that embedding risk management and using it effectively were essential as well as delivering value for money. Moreover, Conrad Hall (the Council's Chief Finance Officer) said that risk management was related to the culture of the organisation, which should allow for sensible enquiries to be made; an open mind approach to risks; and consideration of additional risks beyond the ones presented.

RESOLVED:

- (i) The Draft Risk Management Strategy 2017-2019 and Strategic Risk Register report be noted;
- (ii) The 2017/19 Risk Management Strategy be approved;
- (iii) The draft implementation plan to embed the new Risk Management Strategy be noted;
- (iv) The current Strategic Risk Register be noted;
- (v) An update on the Draft Risk Management Strategy 2017-2019 and Strategic Risk Register, reflecting changes in the aftermath of the Grenfell Tower fire be presented at the Audit Advisory Committee meeting on 20 September 2017.

Councillor Davidson entered the meeting at 6:46 pm.

8. Remit and Operation of the Audit Advisory Committee

Debra Norman (the Council's Chief Legal Officer) introduced the report which explained the remit and operation of the New Audit Advisory Committee. She emphasised that the main change had been that the Independent Members had equal status with other members of the Committee, allowing them to vote on matters considered by the Committee. Ms Norman said the Audit Committee would meet as and when required to make decisions (such as approving the Draft Statement of Accounts). She informed Members that the terms of reference of two Committees were included in Appendix A to the report (page 13 to the Agenda Pack).

RESOLVED that the contents of the Remit and Operation of the Audit Advisory Committee report be noted.

9. External Audit Progress Report

Andrew Sayers (Partner at KPMG) presented the report which summarised the audit activities undertaken by KPMG in the period March 2017 to June 2017. He said that there were no particular issues that had to be reported at this stage and that any outstanding items would be included in the annual audit letter. Mr Sayers drew the Committee's attention to key work undertaken by KPMG which could be found on page 16 to the Agenda Pack. He highlighted that KPMG had commenced work on the Pension Fund annual accounts on 12 June 2017 and that work on the

main financial statements had started on 19 June 2017, with an expectation to be completed by the end of July 2017. The Committee heard that work on the objections to the accounts continued and KPMG's provisional view on the objections made relating to the payment to the former Human Resources Director and associated matters would be shared with the Council and the objectors in July 2017, along with material documents KPMG had relied upon. Mr Sayers said that KPMG had requested additional information from the Council on the Lender Option Borrower Option (LOBO) objection which the Council was currently compiling.

The Chair invited Mr Grant to address the Committee. Mr Grant stated that the objectors were disappointed with the lack of progress and expressed concern that the investigation process may have changed without any notice given to the objectors. Mr Grant explained that the objectors expected to receive all documents which Mr Phillip Johnstone considered material to his decision, so they could have the opportunity to make further comments, before Mr Johnstone made additional enquiries and that KPMG's provisional findings would be shared with them. Mr Grant said that the objectors still had not received any documents (due by the end of June) as per Mr Sayers' email from 3 May. He requested the Committee to invite Mr Sayers to clarify the process the investigation was following and to encourage him to provide a timetable for the steps in the process he intended to take in order to resolve the objections. In response, Mr Sayers said that the actual process had not changed and that there was a slight amendment on timing as he had decided to share the provisional views with the material documents so objectors could consider both together. This in his view was likely to be more helpful. As far as the timetable was concerned, Ms Sayers explained that KPMG had been considering information received at the end of March which accounted for some delay to the process. He said that he expected both the Council and the objectors to respond to the provisional views and then he estimated it would take six weeks for a final decision to be issued unless a new strand of investigation was required.

Mr Grant addressed the Committee in relation to material documents to the payment the electors had objected to. He asked why the objectors had not been provided with the documents that had been given to KPMG in December 2016 by Conrad Hall. He explained that if he had seen the documents, he might have withdrawn his objection (if the documents meant he was satisfied) or he could have made specific comments, clarifying the points he disagreed with. This led to a short discussion about the meanings of 'legal privilege', 'constructive dismissal' and 'unfair dismissal' which Debra Norman (the Council's Chief Legal Officer) explained. Mr Grant asked the Audit Advisory Committee to recommend that officers of the Council notify Mr Sayers that the Council consented to him sharing any documents, including "legally privileged" documents, with the five objectors, subject to strict confidentiality conditions; and to reassure the Chief Executive, and any of her staff, that giving such consent would not be considered to be a breach of their duties to the Council. Mr Sayers responded he would not comment on the legal position, and KPMG would take its own legal advice if required, but he reassured the Committee that he had not been restricted in any way and he had all the information he needed to complete his work on the objections.

A Member of the Committee asked if KPMG would have taken a different approach if the legal privilege did not exist. Mr Sayers said KPMG would have shared documents that were material to their decision and if there was a potential data protection issue, would if necessary have sought its own legal advice. Conrad Hall

(the Council's Chief Finance Officer) reminded Members that a meeting had been held between Carolyn Downs (the Council's Chief Executive), himself and the objectors in early December 2016 when a number of documents were discussed. Mr Hall emphasised that information had been shared and that the Council had not been trying to limit information sharing. In response to a question that related to the nature of the objection, Mr Sayers said that he would not discuss details of the objections received at the meeting. He explained the actions available to the auditors, which are to apply to court for a declaration that the item was unlawful or to prepare a public interest report. Mr Sayers explained that it was a judgement of the auditor to decide whether or not to raise a public interest report.

Mr Hall updated the committee on the work undertaken on the other objection to the accounts (related to the LOBO treasury transactions). He said that all of these transactions were undertaken more than seven years ago and that, at the time of the meeting, officers were seeking to locate relevant documents, some of which would date back to the 1990s, and that it would therefore be some time before a more substantive update was possible.

RESOLVED:

- (i) The contents of the External Audit Progress Report be noted; and
- (ii) A report detailing the timetable of the investigation into the objections made relating to the payment to the former Human Resources Director, the costs incurred and an update on progress (or the final findings) be presented at the Audit Advisory Committee meeting in September 2017.

10. Draft Annual Governance Statement 2016-17

Michael Bradley (the Council's Head of Audit and Investigation) introduced the report which set out the draft Annual Governance Statement for 2016-17 as required by the Accounts and Audit Regulations 2015 and in accordance with the Cipfa / Solace Delivering Good governance in Local Government Framework 2016. He informed the Audit Advisory Committee that the draft statement followed the seven core governance principles and that potential issues had been discussed by the Council's Corporate Management Team. Mr Bradley asked the Committee to consider any changes to the report that may be required. He drew Members' attention to the section of significant governance issues (page 35 to the Agenda Pack) for which action plans had been put in place during 2016-17. He emphasised that the two issues relevant to the fire at Grenfell Tower (Statutory Compliance - Health & Safety and Brent Housing Partnership – Integrated Asset Management Partnership) had been picked up by the Council and had been closed. The Committee heard that as part of the on-going effort to strengthen governance arrangements all actions within the plans had been completed and this had been confirmed through the 2016/17 formal review of effectiveness undertaken as part of the process to produce the Annual Governance Statement. Moreover, no significant governance issues had been identified during 2016-17.

The Independent Member said that the principles and best practice in producing governance statements had been captured well. He stated that good governance had to be ensured both theory and practice so he recommended that more

independent assurance that the procedures prescribed worked well was sought. The Chair stated that this would be look at as part of the audit programme.

A Member of the Committee asked a question about attendance at Member Learning and Development sessions related to regulatory services (see paragraph 3.7.1 on page 27 to the Agenda Pack). The Committee heard that turnout had not been satisfactory and that a report could be brought to the Committee's attention. It was noted that a new approach to Member Learning and Development would be adopted from the start of the next full four-year cycle, i.e. after the local elections in 2018.

RESOLVED:

- (i) The contents of the Draft Annual Governance Statement 2016-17 be noted;
- (ii) The Annual Governance Statement be approved for submission to the Chief Executive and the Leader of the Council for signature.

11. Internal Audit and Counter Fraud Progress Report

Michael Bradley (the Council's Head of Audit and Investigation) introduced the report which provided an update on the progress of the Internal Audit Plan and counter fraud work undertaken since the meeting of the Audit Committee in March 2017 as well as the counter fraud work completed in quarter four of 2016-17. Specific points which Mr Bradley covered included Internal Fraud (page 41 to the Agenda Pack), Housing Tenancy Fraud (page 42 to the Agenda Pack) and Other External Fraud (page 45 to the Agenda Pack). Mr Bradley advised Members that more information was presented in the Internal Audit Annual Report – 2016/17 which had been included in the agenda for this meeting.

The Independent Member reflected that the closing casework numbers were lower than the opening which presented a good result over the course of the year.

RESOLVED:

- (i) The contents of the Internal Audit and Counter Fraud Progress Report be noted;
- (ii) The work of the Fraud Investigation Team on the Housing Tenancy Fraud be formally commended.

12. Internal Audit Annual Report - 2016/17

Michael Bradley (the Council's Head of Audit and Investigation) presented the paper which included the opinion on the overall adequacy and effectiveness of the Council's internal controls and presented a summary of the audit work undertaken during the year. Mr Bradley highlighted that the report had been prepared by Vanessa Bateman (former Interim Head of Audit and Investigation) and, therefore, reflected her views (paragraph 3.2 on pages 47 and 48 to the Agenda Pack). He reminded members that the Audit and Investigation service had been shared with the London Borough of Ealing for the first half of the 2016-17 financial year. The Committee heard that the total number of projects completed was 55 out of a total plan of 61, with the remaining items scheduled to be completed in 2017-18. Mr

Bradley drew Members' attention to paragraphs 3.8, 3.9, 3.10 and 3.13 of the report (pages 50-53 of the Agenda Pack) and noted that the improvement of the level of assurance and having three Priority One recommendations no longer applicable were positive features. The Committee heard that the approach to schools assurance had been reviewed in light of Member and Management concerns to ensure increased assurances were available to Governing Bodies and the Council in 2017/18.

Mr Bradley informed Members that the London Borough of Brent would take part in a peer review between all London Boroughs where a peer borough would be picked at random to assess Brent's Service against the standards. In response to a question from the Chair related to timescales, Mr Bradley said that Brent aimed to complete self-assessment in September 2017, produce an action Plan by December 2017 and take part in a peer review in March 2018.

The Independent Member highlighted that the number of items with limited assurance had increased and recommended actions to be taken to ensure that audit plans and action plans were on target.

The Chair thanked the Audit Service for the work completed.

RESOLVED that the contents of the Internal Audit Annual Report – 2016-17 be noted.

Councillor Naheerathan left the meeting at 8:01 pm.

13. **2016-2017 Treasury Management Outturn Report**

Gareth Robinson (Head of Finance at the London Borough of Brent) informed the Committee that this was a statutory report which was presented to the Committee twice a year. He said that there was a slight reduction in the Debt and Investment Portfolio Position as of 31 March 2017, while PFI remained small (page 64 to the Agenda Pack). He noted that the average rate of interest paid on the Lender's Option Borrower's Option (LOBO) loans had been little different to that on Public Works Loan Board (PWLb) debt (4.75% compared to 4.71% at 31 March), with the most expensive LOBO being at 6.234% on 31 March, compared with the most expensive PWLB at 8.875%. In terms of interest earned, this was confirmed to have been £1 million, representing an average return of 0.52% on the average cash balance of £199 million. Mr Robinson informed the Committee that the Council had recovered 98% of its £10 million deposit with Heritable Bank, but the administrators had not made any further estimate of final recoveries yet (£200,000).

The Independent Member said that Brent Council had to work hard, but he was positive about the assurance achieved by this paper. The Chair noted that the Council was in compliance with the regulations and the Treasury Management Strategy. He further referred to page 69 to the Agenda Pack, commenting that the Council was careful to ensure that it had sufficient revenue to cover financing costs and that it was not overextending itself.

In response to a Member's question related to long-term debt, Conrad Hall (the Council's Chief Finance Officer) gave an example of a loan of £3.05 million at a rate of 8.875% which would have costed the Council £0.935 million to repay which constituted a 30% premium on the value of the loan before the cost of re-financing.

Mr Hall said this made it prohibitive to repay the loans at present but in the future, the situation could change and this would be reviewed if interest rates were to rise significantly.

RESOLVED:

- (i) The contents of the 2016-17 Treasury Management Outturn Report be noted.
- (ii) The 2016-17 Treasury Management Outturn Report be presented to the Cabinet and Full Council, in compliance with CIPFA's Code of Practice on Treasury Management.

14. Statement of Accounts

Benjamin Ainsworth (Head of Finance at the London Borough of Brent) presented the paper which outlined the draft Statement of Accounts prior to their submission for audit. He paid specific the table on page 7 to the Supplementary Agenda Pack which reflected the structure of the Council and compared revenue budget to outturn. Mr Ainsworth commented on each line of the table and reported that the total outturn for the general fund was 0.0. He drew Members' attention to a table on page 9 to the Agenda Pack outlining the Capital Outturn and said that there were plans to address the underspend in 2017-18. This lead to a question about the assurance that the money would be spend in the 2017-18. Conrad Hall (the Council's Chief Finance Officer) responded that the capital budget underspend had been acknowledged and dealt with and that sometimes project managers were too optimistic about the amount of money they were going to spend (e.g. the Schools Programme). The Committee heard that the Capital Programme Board met monthly to review progress and that a number of potential causes of underspending had been identified (for example, unrealistic profiling and issues related to capacity). The Chair requested that a report be presented to the next meeting on the monitoring of the Capital Programme.

Committee Members enquired about overspending in various departments, among which Community and Wellbeing, Resources and Regeneration and Environment. Mr Ainsworth attributed the overspend in the Community and Wellbeing Department to late delivery of the New Accommodation for Independent Living, the increased number of Adult Social Care clients and the missing of targets related to technical change. In relation to overspend in the Resources Department, Mr Hall said that some significant savings in legal services had been made, but it had been difficult to reduce legal support as this could have led to increased risks and could have been counter-productive. He noted that the targets that had been sent unrealistically ambitious. Althea Loderick (the Council's Strategic Director for Resources) added that the legal budget would be reduced by up to £900,000 by introducing more efficient ways of working. Mr Hall pointed out that 2016-17 had been an unusual year for the Regeneration and Environment Department as over- and underspends matched in various areas. He stressed that underspending in the department had not been delivered by cuts, but through savings already planned and agreed, without affecting the level of the service provided. He said that he would discuss some budget adjustments with the Deputy Leader before these were included in a report to the Cabinet and he informed the Committee that would be able to share the document before it was published.

Mr Ainsworth directed Members' attention to the following pages of the Supplementary Agenda Pack:

- Page 10, stating that it was the most important page of the whole report as it contained the Council's balance sheet and noting that liabilities fluctuated every year.
- Page 14, commenting that there was very little movement on most lines with the exception of some liabilities, with some of the bigger movements explained in the narrative of the report.
- Page 32 onwards, where information on financial issues and LOBOs was contained
- Page 41 which detailed senior officer's remuneration
- Page 50, detailing the Housing Revenue Account. Mr Ainsworth said that any movement on the value of council dwellings had a big impact on the Council's balance sheet. The Committee heard that there had been a slight fall (2-3%) in housing values in Brent.

A Member of the Committee asked a question that related to the impact of Right to Buy on the housing revenue account. Mr Ainsworth explained that it had an effect on the number of assets, which had reduced by approximately 160 in the last year. He clarified that some of this reduction could be as a result of movement of assets to the South Kilburn Regeneration Programme.

In response to a Member's question, Mr Hall said that it was a legal requirement to publish information about the remuneration of the Chief Executive, officers who reported directly to her (mostly the Council's Management Team), and statutory officers. He emphasised that all senior officers were paid via Payroll and that in 2016-17 there had been a large increase in the number of officers paid via Payroll.

The Chair advised the Committee that Mr Ainsworth would be available to take further questions from Members in writing. He asked Mr Hall to comment on the level of reserves, to which Mr Hall said that the £12 million general reserves was an appropriate level for a local authority of Brent's size. Mr Hall stated that it would be difficult to have lower level of reserves with the current risk profile, highlighting that Local Authorities had to attain separate reserves against contingency (to be used in emergency situations).

RESOLVED:

- (i) The contents of the Statement of Accounts report be noted; and
- (ii) The opinion of the external auditor on the Statement of Accounts be provided at the Audit Advisory Committee meeting on 20 September 2017.
- (iii) A report on the monitoring of the Capital Programme be presented at the meeting of the Audit Advisory Committee in September 2017.

15. Housing Benefit Subsidy Audit Update

Russell Gibbs (the Council's Benefits Subsidy and Policy Manager) presented a report which updated the Committee on the monitoring of self-employed income assessments carried out under the department's improvement plans for this high-

risk area. Mr Gibbs reminded Members that the 2015-16 Subsidy Audit had identified an error rate of 42% for the 125 claims that had been audited. Members heard that a forward plan had been put in place to facilitate the tackling of issues related to Housing Benefit claims and that an interventions exercise had started. As a result, a total of 2768 claims had been identified as requiring review, the criterion for which being that the self-employed income that had been used in the assessment had been, at that point, greater than one-year old. 10% of these claims required a face-to-face appointment in order to spot check levels of expenses being declared. In addition, a revised policy had been put in place to reduce the number of errors which had led to an improved rate –one error had been found out of 27 quality assurance checks (accuracy – 96%). Mr Gibbs said that interventions were scheduled to continue between July 2017 and November 2017, with an aim to review the remaining 2508 claims. The development of an online form had been delayed and it was not expected to become operational until the third quarter of 2017-18. Therefore, an interim solution had been discussed and it was expected that it would be completed by August 2017. Mr Gibbs expressed confidence that there were no major concerns among members of his team and that work would finish on time.

A Member of the Committee asked how self-employment income was going to work once Universal Credit was rolled out. Mr Gibbs said it was not known when exactly Universal Credit would be introduced (expected by September 2018) and what the speed of the roll-out would be. However, he pointed out that it would be administered by the Department for Work and Pensions (DWP) so assessing applications would become DWP's responsibility.

The Independent Member enquired whether errors were following a similar patterns to which Mr Gibbs responded that more complex cases tended to have greater variation in the types of errors. This led to an enquiry whether higher error rates could be expected in 2016-17. Mr Gibbs confirmed this, stating that this was due to the fact that there had not been enough time to implement the revised measures to influence the outcomes in 2016-17, but reassured Committee Members that claims for the 2017-18 financial year should not have unusual levels of errors.

RESOLVED that the contents of the Housing Benefit Subsidy Audit Update report be noted.

16. **Audit Advisory Committee Forward Plan**

The Chair requested actions related to the preparation for a Peer Review in March 2018 to be added to the Forward Plan.

RESOLVED:

- (i) Audit Advisory Committee Forward Plan be noted;
- (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 as and when necessary; and
- (iii) Audit Advisory Committee Forward Plan be added as a standing item on the agenda of the Committee.

17. **Election of Chair for the Rest of the Meeting**

Mr Ewart left the meeting during the consideration of Agenda Item 18.

RESOLVED that The Independent Member, Mr Sullivan, chairs the rest of the meeting.

18. **Any other urgent business**

Conrad Hall (the Council's Chief Finance Officer) notified the committee that Mr Ewart's term was finishing in June 2017. He proposed that Mr Ewart was re-appointed for another two-year term on the existing terms and conditions. The Independent Member seconded Mr Ewart's nomination and the remaining Members of the Committee expressed their support for the proposal.

RESOLVED that a recommendation be made by the Audit Advisory Committee to Full Council to appoint Mr David Ewart to position of Chair of the Audit Advisory Committee for a two-year term


19. **Date of next meeting**

The date of the next meeting of the Audit Advisory Committee was scheduled to take place on 20 September 2017 at 6:30 pm.

The meeting closed at 8.55 pm

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Chair

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|  Brent | Audit Advisory Committee 20 September 2017 Report from Chief Finance Officer |
| For Information Wards Affected: All | |
| Cover Report: Update on mobilisation and initial operation of I4B Holdings Ltd | |

1.0 Purpose of the Report

- 1.1 The attached report is from the Directors of the Council's wholly owned investment company, I4B holdings Ltd. The company is a distinct legal entity with its own Board of Directors. It, however, relies on the support of council officers, funded through service level agreement and similar arrangements, to carry out its activities, except where these are performed by external contractors or agents. This report has therefore been prepared with the support of those officers, but is nonetheless the report of the Directors of the Company.
- 1.2 A report from the Council Management team, which responds to the I4B report, is also attached.

2.0 Recommendations

- 2.1 The Audit Advisory committee is asked to note the content of the reports.

3.0 Detail

- 3.1 The performance of the company, and of the activities it delivers for the council, is reviewed monthly at officer level. The Council Management Team also reviewed performance and governance in detail at its meeting of 24 August 2017.
- 3.2 However, in the formation of company, it was always envisaged that elected councillors should play a key role in holding the Directors of the company to account. Formally, this role sits with the Audit Advisory Committee. This is because this is the council committee with the most natural remit to scrutinise complex financial models and forecasts and to consider the governance


matters that may arise accordingly. The Committee meets in public and reports to each meeting of the Full Council, thereby ensuring proper democratic oversight.

- 3.3 Matters relating to the company will be reported on to Cabinet. However, in the formation of the company it was not envisaged that this would be the format or place for a detailed review of the company's activities. This is much the same convention as adopted for the approval of the Council's accounts. They are reviewed in detail at the Audit Committee, and then reported on to Cabinet for good governance and transparency rather than in anticipation of further detailed questions.
- 3.4 This way Cabinet will be able to exercise public oversight of the company with the benefit of the assurance provided by the Audit Advisory Committee as to the robustness of the information provided and other key issues, thus ensuring transparent and efficient governance.
- 3.5 The Committee's role is therefore to carry out such review of the Directors' report as they consider necessary.

Contact Officers

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CONRAD HALL
Chief Finance Officer

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|  Brent | <p align="center">Audit Advisory Committee 20 September 2017</p> <p align="center">Report from the Board of I4B Holdings Ltd</p> |
| For Information | Wards Affected: All |
| <p>Update on mobilisation and initial operation of I4B Holdings Ltd.</p> | |

1.0 Purpose of the Report

- 1.1 This report provides an update from the Board of I4B Holdings Ltd on the progress it has made in mobilising the company and delivery against its business plan.

2.0 Recommendation(s)

- 2.1 Audit Advisory Committee is asked to note the updates contained in the report.

3.0 Background

- 3.1 The Council's Cabinet agreed a Temporary Accommodation Reform Plan in March 2016, which identified a number of new approaches to support homeless families and help reduce the Council's dependence and expenditure on temporary accommodation. One of the key initiatives agreed to was to begin a Private Rented Sector (PRS) programme and incorporate a new wholly owned company for the purpose of delivering PRS housing to residents on the housing needs register who have insufficient means to provide their own private sector housing solution.
- 3.2 The Temporary Accommodation Reform Plan identified the advantages of establishing a company owned by the Council outside the Housing Revenue Account (HRA) which could let properties within the PRS, while drawing on the Council's borrowing capacity and give the Council greater control of the investment compared to entering into a joint venture or contract with an external organisation, allowing better management of risk and potential reward.

- 3.3 A PRS portfolio of 300 properties was proposed and an initial budget of £60m, subsequently increased to £100m, was agreed. In Annex 1 of the Temporary Accommodation Reform Plan, a rationale was presented for starting the PRS Acquisition Programme in advance of setting up the Company, stating that the present opportunity to acquire PRS units would narrow in the relatively short-term, and therefore it was in the Council's interest to begin purchases and use purchased units as Temporary Accommodation, with units then switching to PRS lettings on being transferred to the company once established.
- 3.4 In April 2016, Cabinet approved the Council's investment strategy. The strategy was designed to set the framework through which the capital programme will help to deliver the Council's long-term vision to "make Brent a great place to live and work..." and to help deliver the five Brent 2020 priorities. The strategy signalled a shift away from short-term solutions to long-term public investment, and envisaged the Council embracing more innovative and agile corporate structures to enable a more enterprising culture focused on seizing opportunities and managing rather than eliminating risks. One explicit short-term action of the strategy was to establish a local authority controlled company.
- 3.5 In November 2016, Cabinet agreed a paper presented by the Council's Chief Finance Officer entitled 'Establishing a Wholly Owned Investment Company'. Cabinet supported the setting up of the wholly owned company and the Company's PRS business plan, reflecting the ownership and management of three hundred properties to support the Council's homelessness agenda.
- 3.6 The Company, 'Investing 4 Brent' Ltd ("Investing 4 Brent" / "I4B" / the Company) was subsequently set up using the agreed delegated powers and incorporated in December 2016.
- 3.7 Since its initial establishment, the Company's Board, with the approval of Cabinet as shareholder, has taken the decision to change the name of the Company to I4B Holdings Limited. This decision was recently executed following activation of the Company's bank account.
- 3.8 The steps that have been taken to establish the Company can broadly be broken down into:
- 1) The mobilisation of the company – incorporation, governance arrangements, legal contracts, financial support, company policies and other administrative details.
 - 2) The PRS Acquisition programme – purchasing, conveyancing, refurbishment and onward sales.

4.0 Update on Mobilisation

Incorporation of the Company

- 4.1 Investing 4 Brent Ltd was incorporated on 16th December 2016 (though the Company name has since been changed to I4B Holdings Limited).

- 4.2 A number of core legal and financial documents were required by Companies House. These are:
- **Articles of Association / Memorandum of Association** – these are the constitution of the Company, as agreed by Cabinet.
 - **Business Plan/Financial Plan** – as agreed by Cabinet. See Appendix 1.
 - **Shareholder Agreement** – agreed by Cabinet. Sets out the exact nature of the relationship between the Council as the sole shareholder and the Company, and matters on which shareholder consent is required.
 - **Loan Agreement** – setting out the terms of the loan facility provided by the Council to the Company.
 - **Register of Directors** – details of the four company directors and declarations of interests.
- 4.3 The Company is overseen by a Board of Directors, chaired by an independent voting Director. This role is fulfilled by Martin Smith, who is the former Chief Executive of Ealing Council.
- 4.4 The other Company Directors are Cllr George Crane, the Strategic Director of Community Wellbeing (Phil Porter) and the Director of Performance, Policy and Partnerships (Peter Gadsdon).
- 4.5 The Board of Directors meets on a monthly basis and has overseen the mobilisation of the Company and the execution of its Business Plan. The Board is supported by a team of Council officers who are able to provide expert legal and financial advice.
- 4.6 In the November 2016 Cabinet report, 'Establishing a Wholly Owned Company', structures were proposed to enable the Directors of the Company to act with commercial freedom with all the advantages desired in terms of operational flexibility, whilst the Council retains democratic control over all of the key strategic decisions.
- 4.7 The governance structures are as follows:
- **Company Directors** – operate with commercial freedom in the best interests of the company (as required by the Companies Act).
 - **Corporate Management Team** – acts as senior 'client', overseeing the activities of the Company
 - **Cabinet** – acts as the strategic supervisory body with ultimate responsibility for ensuring governance of the Company and approval and delivery of its Business Plan. This role is without prejudice to Cabinet's normal decision making powers as set out in the Council's constitution.

Policies and general administration

- 4.8 The following policies have been written and approved by the Board:
- Health & Safety Policy
 - Safeguarding Policy
 - Equality Policy
 - Assured Shorthold Tenancy Agreement

- Data Protection Policy
- Domestic Abuse Policy
- Anti-social Behaviour Policy
- Complaints Policy
- Freedom of Information Policy
- Procurement Framework

4.9 As the Company contracts out operational activity to either the Council or the housing management agents, these policies explicitly set out the standards it requires its contractors to adhere to.

4.10 The Company does not have an Employment or HR Policy because at present it does not employ any staff.

Service Level Agreement

4.11 The Company has a fixed six month period overarching Service Level Agreement (SLA) with the Council which covers all of its day to day operational activity, including the purchasing and conveyancing process, nominations, lettings and refurbishments, the provision of housing management services and all such other activities as may reasonably be expected to be undertaken. The SLA covers the following services:

- Housing management and responsive repairs
- Buying
- Void management
- Legal support
- Performance monitoring and reporting
- Governance and company support
- Information Governance, FOI, Audit (internal) and Complaints Management
- Financial administration
- Procurement services
- Coordination

4.12 In turn, the Council has contracted three housing management agents to manage properties in the areas in which it has purchased units for PRS letting. Brent Housing Partnership (BHP) (and later the Council once BHP has been brought back in house), Pinnacle Housing Group and Mears Group have been appointed to provide housing management within Brent and Pinnacle Housing Group and Mears Group have been awarded contracts to provide housing management in the Home Counties. Contracts have been signed with BHP (Brent & Greater London), Pinnacle (Home Counties) and Mears (Home Counties).

4.13 To record the Company's assets, the Council (acting on behalf of the Company) is using the existing Northgate housing management system and is preparing to make use of the Council's new Keystone asset management system provided by Civica.

4.14 Through the SLA, the Company purchased a comprehensive range of financial services from the Council including:

- Financial reports to the Board
- Providing an analysis of financial performance against business plan assumptions
- Providing advice to the Company as requested
- Inputting and management of the Company's financial management systems including Oracle
- Managing the Company's accounts
- Invoicing and payments to sub-contractors
- Management and reconciliation of payments to the Company including the four weekly electronic payment of rent and other items to the Company's account from housing management contractors
- Payment of council tax and utilities of void dwellings or any liabilities which fall on the Company
- Service charges and ground rent to freeholder of leased dwellings

Financial delegation and processes

4.15 The Board has a scheme of financial delegation to allow for small payments up to £10,000 to be agreed at officer level. Payments from £10,000 to £49,999 are to be agreed by any one of the Board members, with two Board members to approve all spending over £50,000.

4.16 The Company utilises the Council's Oracle finance system and currently shares a ledger with the Council. The Council plans to introduce a new finance system shortly whereupon the Company will have its own ledger.

5. Delivery against original objectives

PRS Acquisition Performance

5.1 The PRS programme set out to provide 300 units of good quality private sector accommodation for the Council to nominate homeless households to. The programme has been profiled to achieve this target over thirty months instead of twenty-four months and the current programme of acquisitions will be complete by September 2018, with all properties refurbished and let by 31 December 2018.

5.2 Clearly, the programme extension of six months means that opportunities to support homeless families and save revenue costs are delayed, reduced or lost.

- 5.3 Using a calculation based on the current blend of costs relating to the Council use of temporary accommodation, the annual revenue cost savings to the Council would be circa £900k per annum. The longer delivery date has meant circa £250k of revenue savings benefit to the Council have been delayed.
- 5.4 As of 16 August 2017, 52 properties have been purchased and there are 75 properties in conveyancing. The current purchase costs and on costs of properties purchased or in conveyancing is higher than set out in the Business Plan at £359k as opposed to £333k. The average Gross Yield is higher than Business Plan at 4.95% as opposed to 4%+. Table one below provides a summary of the purchases and pipeline.
- 5.5 The Company's business model is highly sensitive to rental yield. A change in yield of 0.25% is equivalent to an increase in equity funding and a reduction in debt funding of £9.7m (circa 10%).
- 5.6 To manage risks, the Company is working towards achieving an average 5%+ gross yield to ensure risks are managed. The Company has introduced a lower gross yield rate of 4.45% for Brent properties and a higher rate for non-Brent properties to ensure the Business Plan achieves its required average and the minimum target of 120 homes in Brent.

Table One – PRS Purchases and Pipeline at 16/08/2017

| Purchase & Pipeline summary | | | | |
|--|------------|--|--|-------------------------------|
| | No | Value £000s (pipeline & acquisitions) | Average purchase price (target ave. £333,000) | True Gross Yield (target 4%+) |
| Purchased PRS Units 2016/2017 | 52 | £18,716,091 | £359,924.83 | 4.86% |
| Pipeline PRS Units 2016/2017 (under offer and in conveyancing) | 75 | £26,931,210 | £359,082.80 | 5.02% |
| Totals | 127 | £45,647,301 | £359,427.57 | 4.95% |
| Other pipeline properties (not in conveyancing) | 15 | N/A | N/A | N/A |
| Remaining PRS Acquisition Budget (£100,000,000) | 173 | £54,352,699 | £314,177 | 5.04% |

- 5.7. To date, the Council has purchased properties on behalf of the Company to ensure that momentum was generated whilst the Company was being set up. The Company now has a bank account and is able to pay purchase and refurbishment costs directly.
- 5.8. The 52 properties purchased to date are not representative of properties within Brent and deviate from the business plan assumption which is: Brent: 120

(40%), Greater London: 30 (10%) and Home Counties: 150 (50%). This imbalance is primarily owing to a parallel Council acquisition programme which purchased 40 Brent properties for the Housing Revenue Account.

- 5.9. Nonetheless, if the 127 properties purchased, or in conveyancing, are considered the proportions closely match the business plan with Brent: 46 (36%), Greater London: 13 (10%) and Home Counties: 68 (54%).
- 5.10. External buying agents have been appointed to complement the Council's property buyers and these agents will initially concentrate on lower value properties in the Home Counties with yields in excess of 5.5%. The impact of this will be to bring in line the average property purchase price and allow greater flexibility to achieve a greater share of portfolio properties in Brent than business plan expectations.
- 5.11. The performance of the Company's management agents is untested until properties are placed into management. The time it has taken to set up a Company bank account has created this delay. There are 15 properties ready to let once the Council sells the properties to I4B. Delegated authority was provided on 21st August 2017 and the Company now has access to the loan. It is expected that the first 15 properties will be transferred to the Company on Monday 11 September.
- 5.12. There are a number of actions underway to strengthen the core business model. However, some of the actions will require a variation from the current Business Plan and these proposals will come forward to the Cabinet in due course.
- 5.13. Actions to improve the performance of the acquisition strategy include:
- The acquisitions team has improved yields, as can be seen in table one, of this report, and should the team continue on its current trajectory significant improvement will be seen.
 - The acquisitions team has been tasked with buying properties with greater economic benefit than those bought so far, with a view to improving the financial performance of the entire 300 unit portfolio (once fully purchased).
 - The acquisition team will focus on smaller dwellings, primarily two and three bedroom properties however a yield in excess of 5% will still be required.
 - The acquisitions team will continue to purchase properties in Brent at a lower minimum gross yield of 4.45% however a limited number of one bedroom properties (up to 15) will be purchased.
 - Up to 15 one bedroom units purchased in Brent will be in demand and the company will let the properties. The Council can nominate sufficient customers in line with the Borough's homelessness pressures and housing demand.
 - External buyers have been identified and the award has been made to purchase and initial 50 units through external buying agents. A minimum

gross yield of 5.5% has been set and a purchase value less than £250k per property is anticipated. These properties will be in the northern towns of the Home Counties.

- Should a noticeable difference in performance of internal and external buyers be identified additional commissions can be made based on performance.
- The Company has the ability to use market rent for a proportion of its portfolio, in some circumstances, if it provides financial stability to the company.

The dashboard showing the position in August 2017 is attached at Appendix 3.

Implications for the financial model

5.14. The financial implications of the original objectives were reflected in a financial planning and forecasting tool which detailed (among other things), for the three discrete property location categories (Brent & Greater London; Home Counties (low LHA); Home Counties (medium LHA)) Projections and Forecasts of:

- Property Purchase & Acquisition Costs
- Rental Yield
- Loan to Equity Ratio
- Debt Financing Costs
- Operational Management & Repair Costs

5.15. It should be noted that the financial projection extrapolates real data on acquisitions to date, whereas the forecast layers originally forecast data (for yet-to-be purchased properties) on top of actual data to date.

5.16. The financial model is updated to reflect real data as new properties are acquired allowing the ongoing financial performance to be tracked and new projections/forecasts derived.

5.17. Using the latest data (acquisition of 52 units) the financial model predicts that, should the current acquisition pattern continue (i.e. a financial **projection**):

5.18.1 Property purchase and acquisition costs for a 300 unit portfolio will exceed the £100m agreed funding limit by £7.5m.

5.18.2 The 300 units acquired will not be in locations reflected in original assumptions (critically, there will be an underachievement of the number of units purchased in Brent and Greater London (139 compared with 150 in original plans)).

5.18.3 A marginal and favourable variance in the Rental Yield will result in approximately £10K more than **forecast** being available every year to fund operational debt and/or financing costs.

5.18. Performance against this threshold will be reported to Cabinet at regular intervals to ensure there is clarity about its direction of travel and further, to provide certainty that the Company limits its reliance on Council equity.

6. Challenges and how these are being addressed

Property acquisition process and key to key performance

- 6.1 A number of challenges have arisen during the set up and mobilisation of the Company and the acquisition programme, many of which have been resolved or are currently being addressed.
- 6.2 The time between property identification and purchase is an average of fifteen weeks and the average number of days between purchase and refurbishment completion (key to key) is 160 days. The Business Plan target for purchase to letting is 90 days. Plans are in place to improve performance, especially relating to refurbishment timescales to ensure that performance relating to the remaining 248 properties compensates for performance at the commencement of the programme.
- 6.3 The target of 300 properties purchased by April 2018 has been extended by six months to September 2018. The impact of these late purchases is primarily a delay in provision of revenue savings to the Council. Risks to the Company's Business Plan are limited. As the market has been much flatter than initially predicted, the price the Company is likely to pay for delayed purchases may well not be disadvantageous and the risk of the portfolio achieving gross yield because of market conditions is limited.
- 6.4 The programme has now established a track record of acquisitions and property refurbishment and has contractors ready to manage the properties and collect rent on behalf of the Company.
- 6.5 The Company has raised issues with the use of Council services via the SLA which have not been as flexible and agile as required. This was discussed at the 24 August 2017 meeting of the Council Management Team and measures have been agreed to ensure the support being provided is able to meet the Company's requirements. However, it is important to note that this has been a new way of working and learning from the establishment of I4B is being used to improve ways of working as well as to inform future projects. In addition, had the Company opted to obtain external support, this would not have resulted in mobilisation being undertaken more quickly.
- 6.6 In advance of the work on the SLA, CMT has agreed a number of measures to strengthen the level of support for the Company and to ensure improvements in business processes e.g. the acquisitions process.

7. Further Business Opportunities

- 7.1 The Company has explored a number of opportunities which could complement its landlord role, strengthen its Business Plan and deliver more benefits for Brent. The Company and the Council's Housing & Community Investment Board (HCIB) are working together to explore the best fit of opportunities to deliver affordable housing and new housing supply.

- 7.2 The types of schemes being considered include block acquisitions, joint ventures with Registered Providers (RPs), roof top modular new build, taking over assets currently owned by Brent Housing Partnership (BHP) and supporting Council new build schemes through risk sharing and property purchase. The Company and the Council's Housing Partnerships team are looking at a number of current schemes and opportunities.
- 7.3 Examples of specific schemes include:
- A £7m scheme consisting of 30 new homes of modular construction within Brent. The properties would be built in partnership with the Council and have affordable, social and intermediate I4B tenancies. The scheme has been provided with an initial grant allocation from the GLA.
 - The Company may become a suitable recipient for the assets currently owned by BHP, if a decision is made to transfer assets once BHP comes back into the Council. BHP has circa 300 properties let at market and intermediate rents. Any transfer of assets would strengthen the Company and provide benefits from shared costs and economies of scale.
 - Joint venture opportunities provide the Council, the Company and partner RPs the opportunity to purchase potential housing sites in Brent and develop affordable, intermediate and if desired, market rent. One example of a joint venture would be to develop 80 flats at a cost of £25m within Brent. The scheme development could be delivered by the RP but 50% of the properties would be owned by the Company at the build cost price, as opposed to the market price.
 - The purchase of ten new build leasehold units within Brent. The scheme could enable the Council to avoid losing the freehold of the site and increase the affordable (intermediate) units from 30% to 100% and enable the provision of a new community facility.
- 7.4 The Company will ask Cabinet, as part of its business planning, to consider a paper exploring freedoms and flexibilities in relation to the Company and the opportunities that could result.

8 Financial Implications

- 8.1 The financial model is regularly updated to reflect the latest property acquisitions and is designed to assist the Board's decision-making, with respect to the potential to flex the parameters (e.g. size, location) of properties yet to be purchased.
- 8.2 The funding arrangement for the purchase of properties assumed within the financial model is:

Borrowing: the maximum loan that the rental income (net of costs) is able to support

Equity Investment: a dividend-free capital contribution from the Council which funds the difference between borrowing undertaken and total property acquisition costs

- 8.3 The Council equity stake calculated in the updated financial model Forecast (as opposed to the Projection) is estimated at 14.6% of total capital outlay of £99.3m (£14.5m). This is the minimum Council investment requirement to maintain viable financial model.
- 8.4 Table Two below shows how the financial model would perform for varying levels of equity investment:

Table Two

| Equity Requirement as per latest financial model (%) | Proposed Equity (%) | Equity Stake Excess (%) | Capital Shortfall (equivalent to Equity Excess in cash terms) (£000's) | Annual Revenue Headroom (£000's) |
|---|----------------------------|--------------------------------|---|---|
| 14.60 | 5.00 | (9.60) | 9,100 | 267 |
| 14.60 | 10.00 | (4.60) | 4,100 | 121 |
| 14.60 | 15.00 | 0.4 | (400) | (12) |
| 14.60 | 20.00 | 5.4 | (5,400) | (158) |
| 14.60 | 25.00 | 10.4 | (10,300) | (300) |

- 8.5 At 5% equity, the programme suffers a £9.1m capital shortfall which would require 267k additional revenue income to be generated each year (£267k would support 95% of £9.1m of additional borrowing (95% only, is required to maintain the 95:5 borrowing to equity ratio)). Five percent is the level of equity investment that was envisaged when the original business plan was put together.
- 8.6 At 25% equity investment, there is £300k of revenue headroom in the model, this being the maximum amount of revenue income the programme could forgo while remaining viable.
- 8.7 Officers are currently working through various operational scenarios to determine the extent to which equity investment is likely to be needed and how this level of support can be provided from within Council resources.
- 8.8 Performance against the anticipated equity requirement will be reported to Cabinet at regular intervals to ensure there is clarity about its direction of travel and further, to provide comfort that all opportunities to reduce the Company's reliance on Council equity are thoroughly investigated.

- 8.9 Current outputs from the financial model suggest that there has been significant movement from the originally anticipated cost of property acquisitions previously estimated at £85.6m to £99.3m for the latest forecast (and £107.5m for the latest projection).
- 8.10 With property acquisition costs now forecast at £99.3m, there is a risk that the next update of the financial model will forecast a breach of the £100m capital expenditure limit.
- 8.11 Property acquisition strategies are constantly reviewed in order to bring financial performance back in line with either the original predictions or failing that, the current forecast.
- 8.12 Paragraphs 5.18.1 and 5.18.2 considered together indicate that, if maintained, the current purchasing pattern would result in the £100m capital expenditure fund being exhausted before all 300 units were bought.
- 8.13 Officers have also carried out stress-tests of the Company financial model to determine the extent to which outputs are influenced when base assumptions are flexed.
- 8.14 Each of the key risks to the Company Business Plan was scenario-tested. Included at Appendix 2 provides a table illustrating the impact of each scenario with a [low/medium/high] risk rating and suggested offsetting mitigations available to the Board.
- 8.15 The Board will be routinely monitoring the risk profile of the company and reporting regularly to the Council as shareholder.

9.0 Legal Implications

- 9.1 The Company has been established as a trading company in accordance with the approvals of Cabinet of 15 November 2016 and in compliance with relevant legislation to include section 95 of the Local Government Act 2003 and the Local Government (Best Value Authorities) (power to Trade) (England) Order 2009.
- 9.2 The report to Cabinet of 15 November 2016, indicated that the Company's initial principal aim was to assist in the delivery of the Council's regeneration plans and housing development objectives, but it was envisaged that the aim will be developed over time. In Section 7 of the report it appears that the Company has explored a number of opportunities which could complement its landlord role, strengthen its business plan and deliver more benefits for Brent. Pursuant to the general power of competence under section 1 of the Localism Act 2011, the Council is able to agree to the extension of the commercial purpose for which the Company has been established subject to exercising such power in accordance with its general duties, to include its fiduciary duties.
- 9.3 The Financial Implications section of the report details steps to realign performance and the business plan and address risks. Cabinet approval in

relation to the various options set out in the Financial Implication Section would be required which in turn would require amendment of various documents referred to in paragraph 4.2, in particular the Shareholders Agreement and the Business Plan.

10.0 Equality Implications

- 10.1 The proposals in this report have been reviewed and found to have a neutral impact on equality in relation to all of the protected characteristics.

Background Papers

1. I4B Business Plan
2. Scenario test of Business Plan risks and mitigations
3. PRS dashboard – August 2017

MARTIN SMITH
CHAIR, I4B HOLDINGS LTD

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Investing 4 Brent
Business Plan
November 2016

Contents

- 1 The Purpose and objectives of the Company
- 2 The benefits of operating as a company
- 3 The structure of the company
- 4 The company financial plan
- 5 Risks, issues and mitigations
- 6 Key Targets
- 7 Key performance indicators

Appendices

Appendix 1 – assumptions underpinning the financial case

Appendix 2 – Company 30 year financial plan

Appendix 3 – Company 24 month profit and loss forecast

Appendix 4 – Company 24 month cash flow forecast

1. The Purpose of the Company

- 1.1 Brent has one of the highest numbers of households in Temporary Accommodation in England. For quarter 2 of 2016-17, Brent reported having 2,895 households living in Temporary Accommodation, the 4th highest of all housing authorities in England. Brent, against the overall London trend, has managed to dramatically reduce the number of households in Bed & Breakfast accommodation during 2015/16 (from a peak of 242 households in Q2 2014-15 to 32 for the same quarter in 2016-17 – an 87% reduction. However, there are still too many households in temporary accommodation which is inadequate for their needs, and the needs of their children.
- 1.2 On 14 March 2016 Cabinet approved the council's Temporary Accommodation Reform Plan, which responds to this challenge. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation. It is intended that the council will acquire properties, either directly or through partner delivery agents, which will be let as long term PRS properties at Local Housing Allowance levels to prevent homelessness or end a homelessness duty.
- 1.3 In order to maintain the momentum it is important that a flow of suitable accommodation is available to provide a stable housing opportunity for those who would otherwise be in temporary accommodation
- 1.4 The primary purpose of the company will be to deliver the housing options defined in the TA reform plan. However the directors of the company will have limited discretion to let properties at affordable rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative.
- 1.5 The secondary purpose of the company will be to carry out business development activities, to research new ways and opportunities by which it could support the achievement of the council's wider objectives. Some ancillary expenditure towards this purpose is anticipated in the initial business plan period. The company will then present proposals, in the form of a revised business plan, for approval by the council, ideally before the end of the 2016/17 financial year.

2. The benefits of operating as a company

- 2.1 As a wholly owned, Local Authority Company, the company will operate at 'arms length' from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.
- 2.2 The company is set up with the following requirements:
 - After the initial set up period, the company operates with a retained surplus
 - The company will have discretion over the individual properties it acquires provided that:
 - They are in a suitable location for Brent to comply with its duty under the Homelessness Suitability of Accommodation Order of 2011

- They are within the affordability criteria set out in the company investment plan and Capital financing agreement with Brent
- The rental income will be broadly the Local Housing Allowances agreed and funded by Central Government

3. The structure of the company

- 3.1 The company will be set up as a company limited by shares, initially providing affordable homes for households who might otherwise be housed in temporary accommodation.
- 3.2 The company will be named Investing 4 Brent.
- 3.3 The company's registered office will be:
- Brent Civic Centre,
Engineers Way,
Wembley
HA9 0FJ
- 3.4 The Company's Memorandum of Association and Shareholders Agreement are as set out in the relevant documents.
- 3.5 The Board of the Company will be chaired by an independent voting Director. The other directors of the company will be:
- Councillor George Crane;
 - The Strategic Director of Community Wellbeing (Phil Porter); and
 - The Director of Policy, Partnerships and Performance (Peter Gadsdon)
- 3.6 The company will purchase the minimum range of services under SLA with Brent including
- Support Services
 - Property Services
- 3.7 The Company will purchase such other services as may be required to discharge this business plan under contract procured to demonstrate value for money including but not limited to:
- Property management and routine maintenance
 - Major maintenance and refurbishment
 - Rent collection and debt recovery
 - Buildings Insurance
 - White Goods
 - Professional services for business development activities, to the extent that these are affordable and consistent with the governance framework.

4. The Company Financial Plan

4.1 Property Portfolio

- 4.1.1 The intention is that Investing 4 Brent will seek to purchase and manage c300 properties to provide an affordable housing option for Brent Residents, who may otherwise be placed into Bed and Breakfast accommodation.
- 4.1.2 The plan for the acquisition of properties commenced early in 2016 and will continue until the end of the 17-18 financial year as detailed in the following table

| PRS Location | Target | 2016/2017 | | | 2017/2018 | | | |
|--|--------|-----------|-------|-------|-----------|-------|-------|-------|
| | | Qtr. 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| Brent | 120 | 11 | 12 | 11 | 22 | 21 | 21 | 22 |
| Home Counties | 150 | | | | | | | |
| Low LHA rates Luton/Slough/ Bedford/Leighton Buzzard/ Dunstable/ Hitchin/ Letchworth/ Hemel Hempstead/Hatfield | | | 10 | 11 | 14 | 19 | 22 | 19 |
| Medium LHA Rates Watford/ Wycombe/ Aylesbury/ Maidenhead/ Reading/Amersham | | | | 6 | 7 | 13 | 15 | 14 |
| Greater London (or Home Counties) | 30 | | | 4 | 7 | 7 | 7 | 5 |
| Totals | 300 | 11 | 22 | 32 | 50 | 60 | 65 | 60 |

Figure 1 Indicative PRS property purchase phasing

- 4.1.3 For the company to be financial secure it is important that the right mix of properties are acquired. As the rental income is fixed to the Local Housing Allowance (LHA) the purchase price of the property can be flexed based on the LHA. In areas with a relatively high LHA, a higher purchase price can be sustained, whereas in areas with a lower LHA, a lower property purchase price would be required.
- 4.1.4 The intention is that a broad portfolio of properties will be purchased within specific areas:
- Brent
 - Greater London / opportunity purchase
 - Home Counties (Medium Local Housing Allowance Areas)
 - Home Counties (Low Local Housing Allowance Areas)
- 4.1.5 Brent and Greater London have a higher LHA, therefore a greater purchase price is acceptable. To be a sustainable, viable company a minimum excess of income from rental above operational costs will be required. In purchasing a property, this margin can be expressed as a Gross Margin as a percentage of the annual LHA rental compared to the final purchase price.

4.1.6 Within this framework the company has discretion as to the mix of the properties provided that:

- The minimum number of properties are purchased and made available for affordable rent – minimum target number 300 properties
- The total capital funding envelope is not exceeded – presently agreed funding envelope £100m
- A Minimum target 'Gross Yield' is achieved

4.2 Capital Investment

4.2.1 Capital Expenditure

4.2.1.1 Modelling the likely portfolio of properties suggests a Capital requirement of c£100m (depending upon the average gross yield achieved and the mix of properties purchased).

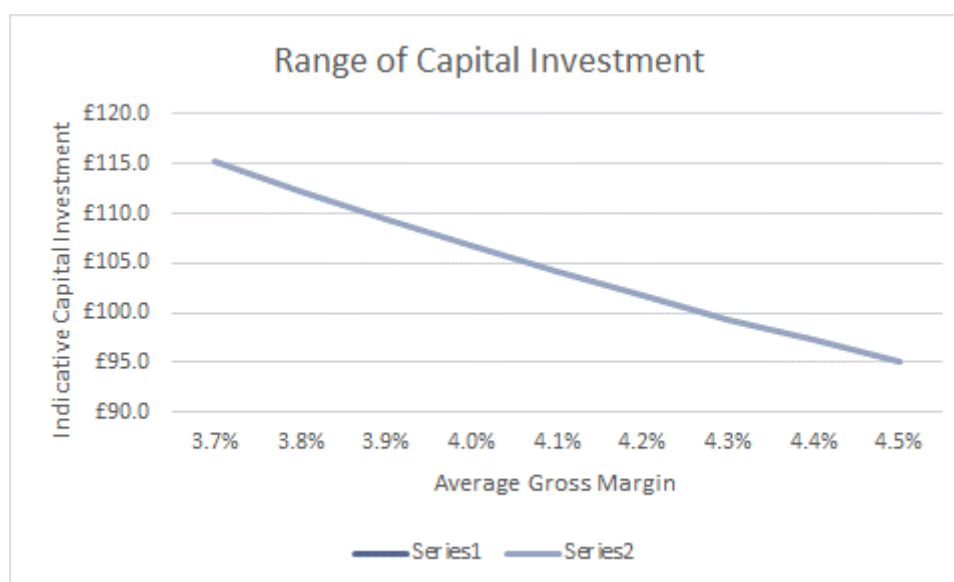


Figure 2 range of capital investment

4.2.1.2 For a given indicative pool of properties, the capital requirement reduces as the Gross Margin increases.

4.2.1.3 The funding model is based on a 'bullet payment'. The company services interest on the debt only, the debt (and equity) being repaid upon the liquidation of the asset.

4.2.2 Funding of capital investment

4.2.2.1 The c£100m capital investment can be funded from a mixture of loan and equity capital. The amount that the company can afford to borrow will be determined by the availability of revenue funding to meet the interest payments on any borrowing. The amount of revenue funding available to meet repayments on capital will be driven by the Gross Margin.

4.2.2.2 As the Gross Margin increases, the amount of income generated from rents increases in proportion to the amount borrowed. Any capital that the company cannot raise through borrowing could be made available from Brent in the form of Equity in the company. Equity would be an investment in the company whereby the financial return on the investment would take the form of dividends (annual share of any profits) or on liquidating the company's assets at some time in the future. If (say) the Authority lent the company 95% of its capital requirement and made the rest available as equity, a 1% p.a. rise in the value of the property would represent a 20% p.a. growth in the value of the equity held in the company (before tax).

4.3 Company Operational Finance

4.3.1 Company Turnover

4.3.1.1 Based on a final investment portfolio of up to £100m and a Gross Margin of 5%, the estimated turnover of the company would be £0.6m in the first year of operation, rising to £4m in year 3 once all of the 300 properties have been purchased, refurbished and let to tenants.

4.3.2 Operational Expenses

4.3.2.1 The company will operate with minimal operational expenses. There will be a core company cost including property management, finance and legal, company secretary and directors expenses (SPV). As well as the SPV costs there will be costs associated with reletting properties, minor and major maintenance, voids and bad debts. Allowance for all of these costs has been included in the financial modelling.

4.3.3 Company Tax Status

- 4.3.3.1 As a limited company registered under UK company law, the company will be liable to pay UK taxation on:
- VAT on inputs into the company – charges from the Local Authority and contracts for maintenance and management of the portfolio of properties. The company would not be able to offset VAT as the value of taxable supplies will be very small
 - Corporation Tax – a taxation of the profits made by a company
 - Capital Gains Tax – a tax upon the rise in the financial value of an asset
- 4.3.3.2 In addition, the company would be liable to pay Stamp Duty Land Tax on purchases for the property portfolio.

4.3.4 Financial performance

4.3.4.1 The company's financial performance is dependent upon a number of variables:

- The profile of the properties within the portfolio
- The timing of the purchase of the properties
- The Interest rate charged on any borrowing
- The costs of refurbishing prior to first let
- The length of time between purchase and first occupancy
- Annual running costs and rental income

4.3.4.2 Appendix 1 gives some details on the assumptions underpinning the business plan

4.3.4.3 Based on these assumptions the financial model suggests that an overall loan to equity split of 95% loan, 5% equity maintains the right balance between benefits to the local authority and the viability of the company.

4.3.4.4 Modelling using the parameters outlined earlier in the business plan and the assumption contained within appendix 1, the company is forecast to begin operating at a profit from year 4 onwards.

| 5 yr Summary Forecast Trading Statement | % | Year | | | | |
|---|---|--------------|--------------|--------------|--------------|--------------|
| | | 0 | 1 | 2 | 3 | 4 |
| | | 000's | 000's | 000's | 000's | 000's |
| Gross Rental Income | | 664 | 3,182 | 3,996 | 4,036 | 4,076 |
| Management/ Maintenance and Bad Debts / Voids etc | | (269) | (923) | (1,096) | (1,121) | (1,147) |
| SPV Costs | | (306) | (312) | (115) | (118) | (121) |
| Net Operating Income | | (306) | 83 | 2,144 | 2,782 | 2,793 |
| Debt Financing | | (635) | (2,041) | (2,257) | (2,257) | (2,257) |
| Working Capital | | (6) | (12) | (8) | | |
| Net operating Profit / Loss | | (306) | (557) | 91 | 517 | 536 |
| Corporation Tax | | | | | (56) | (109) |
| Retained Profit | | (306) | (557) | 91 | 517 | 480 |
| Retained Profit (Cumulative) | | (863) | (772) | (255) | 225 | 663 |

Figure 3 5 yr summary forecast trading statement

Appendix 2 gives more detail year on year.

4.3.4.5 The retained profit for the company peaks in year 20, at which point the company starts to make losses. These losses are such that the company's retained surplus reduces to £500k at the end of the 30 year plan.

4.3.5 Cash Flow

- 4.3.5.1 A 24 month Cash Flow forecast (appendix 4) indicates that the company will need a working capital facility of c£1m until year 4, at which point it begins to accumulate retained surpluses. Interest on any working capital facility has been calculated at the same rate as the overall capital interest rate charged on the borrowing element of the property purchases.

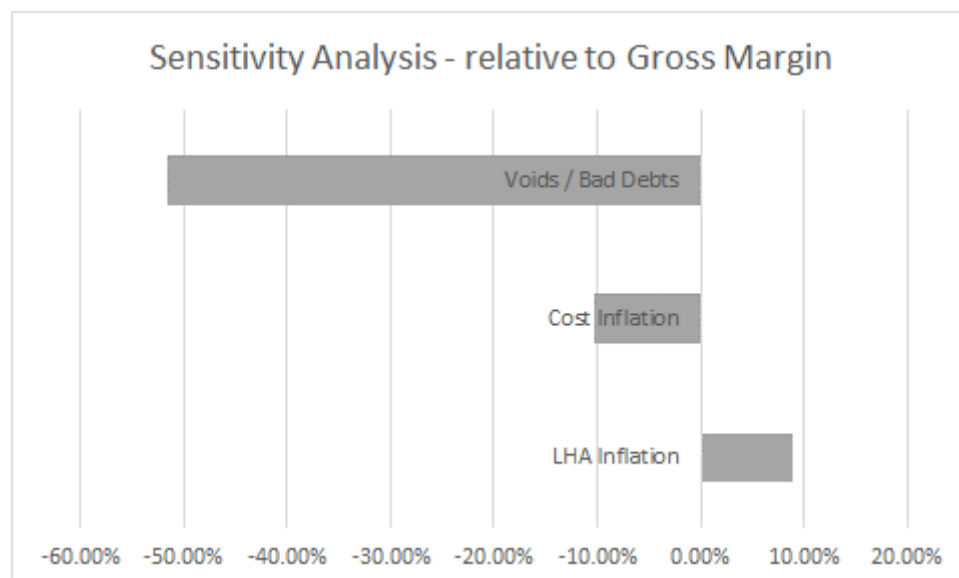
5. Sensitivity Analysis, risks, Issues and mitigations

5.1 Sensitivity Analysis

- 5.1.1 Operating at LHA rental income, the company operational financial margins are small. The company is therefore unusually sensitive to a number of factors that underpin its performance. The key Factors being:

- Gross Margin
- Inflation
- Management of voids and bad debts
- Property portfolio

- 5.1.2 Each of these factors has been expressed as a percentage impact of the Gross Margin, assuming all other factors remain unchanged.



- 5.1.3 The sensitivity analysis shows that in order to have the same impact as changes to the Gross Margin, Voids / Bad Debts would need to be more than 50% lower than modelled, Cost inflation 10% lower and LHA inflation 9% higher than modelled.

5.2 Risks, Issues and Mitigations

5.2.1 There are a number of financial risks facing the company. The sensitivity analysis shows that the biggest risk is at the acquisition stage. It is critical to the sustainability of the company that the right mix of properties are acquired for the portfolio.

5.2.2 Analysis of risks, issues and mitigations

| Risk / Issue | Impact | Mitigation |
|---|--|---|
| Portfolio of properties does not achieve the target Gross Margin | The relative income from property rentals at LHA rates is insufficient to fund the full business plan of the Company | Property acquisition is targeted to achieve the target gross margin. Intelligent purchasing is aided by dedicated market surveillance software. The loan / equity proportion could be flexed as tranches of properties are added to the portfolio during the acquisition phase |
| The portfolio of properties can sustain the company for the early years, but is not able to sustain for the full 30 year plan | The company becomes insolvent | Properties could be transferred to a different model of social rent with a higher yield than LHA rents. |
| LHA income inflation does not achieve the increases in the model | The company cannot achieve the required income levels | Properties could be transferred to a different model of social rent with a higher yield than LHA rents |
| Cost Inflation is higher than included in the model | The company's cost base is higher than that included in the model | Properties could be transferred to a different model of social rent with a higher yield than LHA rents |
| Contract management / re-let and maintenance costs are higher than modelled | The company's cost base is higher than that included in the model | Properties could be transferred to a different model of social rent with a higher yield than LHA rents A high Gross Yield target could be set, limiting the availability of suitable properties in some geographical areas |
| The mix of Freehold / Leasehold properties is not as modelled | The additional costs associated with Ground Rent and Service Charges may be more than included in the model | The value of the major repairs provision may be used to offset additional service charges for elements of maintenance or local sinking funds. The purchasing portfolio may be flexed to |

| | | |
|--|--|---|
| | | accommodate more freehold properties and properties could be transferred to a different model of sub market rent with a higher yield than LHA rents |
|--|--|---|

6. Key Targets

| Key Target | Measure | Impact | Verification |
|--------------|--|--|---|
| Gross Margin | Greater than 4% for affordable housing and Greater than 5% for sub-market / market housing | A minimum gross margin is required in order to make the company sustainable and a higher margin is expected from commercial investments | Based on detailed financial analysis underpinning the company business plan |
| Borrowing | 95% | A 0.2% increase in the Gross margin will increase the income available to the business by £3.5m over the 30 year business plan | |
| Equity | 5% | Higher revenue costs or below target gross margin will | |
| Cash Flow | Peak working capital requirement | The company requires a working capital (cash flow) facility during the initial business plan period whilst properties are purchased, refurbished and first let | |

- 1.1. These key targets are dependent upon a number of key variables that underpin the finance model in the company business case

| | | | |
|---|-----------------------------|---|---|
| Property portfolio | 300 properties, £100m capex | A balanced portfolio of properties has been included in the model to achieve both the target gross margin and the Capex target | The property model is based on the published L:HA rates for the target areas. These are published on .gov.uk |
| Balanced portfolio of Leasehold / Freehold properties | 65%/35% | A higher Leaseholder based portfolio would decrease the share of income available for rent repayment and core company services. A higher share of freehold properties increases the programme cost. Leasehold properties are subject to freeholder investment strategies which gives less predictability to major works investment. | This assumption is based on the mix of properties initially included in the property portfolio. Market surveillance indicates that properties with a limited lease period that makes a mortgage more difficult readily achieve the target gross margin |
| Tax | | Corporation tax, VAT, Stamp Duty and Land Tax | The model informs the potential for |

| | | | |
|---|--|--|---|
| | | | payments of Tax |
| Turnover | 4 year average tenancy turnover | A higher turnover of properties would increase the number of homeless family supported but potentially increase void maintenance costs and potentially rent loss | The average turnover has been modelled based on experience by Social Finance. The plan is that households would be encouraged to move on into alternative accommodation, freeing up the property for use by further households. |
| Housing Management and Maintenance Services | £2,000 (can this be shown as % of property value per annum | A higher cost would reduce the share of income available for loan repayment. A lower cost would increase the stability of the company and support an increased loan to equity ratio borrowing ratio or provide funds for additional investment | They rate per property has been based upon the Social Finance model and local experience of using BHP. This will be market tested through a current procurement exercise. |
| Insurance | £200 per property p.a. | A cost at variance to this would have an impact on the financial model. | This is based upon the Social Finance model and experience. The final property portfolio will drive the insurance costs. Internet research suggests that the average cost of buildings insurance in the consumer market is £84 p.a. |
| Voids and Bad debt | 1.5% void 2% bad debt | A higher cost would reduce the share of income available for loan repayment. A lower cost would increase the stability of the company and support an increased loan to equity ratio borrowing ratio or provide funds for additional investment | Based on rates from Mears and cross referenced to BHP. The expectation is that the client group would be more likely to be able to meet their rent obligations. |
| Major works | 0.5% of property value per annum after 4 years | A 1% increase/decrease in the Major Works costs would result in an increase or decrease of the business plan of £200k over the 30 year business | Based on modelling provided by social finance. The actual cost of major works will be tested during the life of the |

| | | | |
|--|--|-------------|---|
| | | plan period | business case. The cost of works will be flexed depending upon the condition of the property at point of relet. |
|--|--|-------------|---|

7. Key performance indicators

The Company will provide regular performance information

KPIs – non financial

KPIs – financial

| Name | Description | Target |
|---|---|--------|
| <u>Purchase Phase</u> Gross Margin Average Purchase Price Average refurbishment costs Average income foregone during refurbishment | The ratio of the LHA to the purchase price of the property | >5% |
| <u>Operational Phase</u> Income Total potential income Income received Debts Bad Debts Write Offs Running Costs Total operational maintenance costs Total major refurbishment costs Gross Profit Company operational costs Net Profit Value of acquisitions | Potential income if all properties were occupied Income due and received from tenants Income due but not yet paid Income due but unlikely to be recovered Income formally written off The operational profit of the housing stock (rental income less voids and bad debts) less management, refurbishment, maintenance The operational and administrative costs of the company The operational profit of the company after deducting company running costs and administration Number and value of new property acquisitions | |

| | | |
|---|---|--|
| Value of disposals Current value of properties under management | Number and value of property disposals The current value of the company property assets | |
|---|---|--|

Appendix 1 – assumptions underpinning the financial case

| Description | Assumption |
|---|--|
| The timing of the purchase of the properties | The timing of the purchase of the properties has been derived from the table at Figure 1 of this report |
| The profile of the properties within the portfolio | The timing of the purchase of the properties has been derived from the table at Figure 1 of this report |
| The Gross Margin | An average Gross Margin of 4% has been used in the financial modelling |
| The Interest rate charged on any borrowing | The interest rate that the Local Authority will finance the loan at has been modelled at 3% |
| The costs of refurbishing prior to first let | The costs of refurbishing have been derived from a sample of properties recently purchased for all programmes with the local authority |
| The length of time between purchase and first occupancy | An average period of three months has been modelled for the period between purchase and first occupancy. The costs of refurbishment have been equally spread over this period. |
| Rental Income | The Local Housing Allowance rates have been used to derive Rental Income. A composite rate has been used for The Home Counties low and medium property. Brent LHA has been used for Brent and Greater London purchases |
| Voids | A void rate of 2% has been used over the life of the model |
| Bad Debts | An allowance for Bad Debts at 1½% of gross rental income has been included in the model |
| Major Repairs | A provision for the costs of major repairs has been included from year 5 of the model |
| Local Management (SPV) Costs | A small cost for managing the programme and properties (SPV) has been included in the modelling |
| Start up costs | A cost representing the costs of establishing the company and procuring the first properties (£318k) has been included as part of the start up costs of the company. This cost will be recovered from initial profits of the company |
| Taxation | Tax has been included at the prevailing rates. The cash flow forecast includes irrecoverable VAT being paid quarterly in arrears |

Appendix 2 – Company 30 year financial plan

| Propco 30 year Operating Statement | | % | Year | | | | | | | | | | | | | | | |
|---|-------|---|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| | | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's |
| Gross Rental Income | | | 664 | 3,182 | 3,996 | 4,036 | 4,076 | 4,117 | 4,158 | 4,199 | 4,241 | 4,284 | 4,327 | 4,370 | 4,414 | 4,458 | 4,502 | |
| Management/ Maintenance and Bad Debts / Voids etc | | | (269) | (923) | (1,096) | (1,121) | (1,147) | (1,650) | (1,689) | (1,729) | (1,770) | (1,812) | (1,855) | (1,899) | (1,944) | (1,991) | (2,038) | |
| SPV Costs | | | (306) | (312) | (115) | (118) | (121) | (124) | (127) | (130) | (133) | (137) | (140) | (144) | (147) | (151) | (155) | (159) |
| Net Operating Income | | | (306) | 83 | 2,144 | 2,782 | 2,793 | 2,805 | 2,340 | 2,339 | 2,337 | 2,335 | 2,332 | 2,328 | 2,324 | 2,318 | 2,313 | 2,306 |
| Debt Financing | 2.78% | | (635) | (2,041) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) |
| Working Capital | | | (6) | (12) | (8) | | | | | | | | | | | | | |
| Net operating Profit / Loss | | | (306) | (557) | 91 | 517 | 536 | 547 | 83 | 82 | 80 | 78 | 75 | 71 | 66 | 61 | 55 | 49 |
| Tax | | | | | | (56) | (109) | (17) | (16) | (16) | (16) | (16) | (15) | (14) | (13) | (12) | (11) | (10) |
| Retained Profit | | | (306) | (557) | 91 | 517 | 480 | 438 | 66 | 65 | 64 | 62 | 60 | 57 | 53 | 49 | 44 | 39 |
| Retained Profit (Cumulative) | | | (863) | (772) | (255) | 225 | 663 | 729 | 795 | 859 | 921 | 980 | 1,037 | 1,090 | 1,139 | 1,183 | 1,222 | |

| | | % | Year | | | | | | | | | | | | | | |
|---|-------|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| | | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's |
| Balance Sheet | | | | | | | | | | | | | | | | | |
| Long term Loan | 95.0% | | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 |
| Equity Finance | 5.0% | | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 |
| | | | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 |
| Gross Rental Income | | | 4,547 | 4,593 | 4,639 | 4,685 | 4,732 | 4,779 | 4,827 | 4,875 | 4,924 | 4,973 | 5,023 | 5,073 | 5,124 | 5,175 | 5,227 |
| Management/ Maintenance and Bad Debts / Voids etc | | | (2,087) | (2,136) | (2,187) | (2,240) | (2,293) | (2,348) | (2,404) | (2,462) | (2,521) | (2,581) | (2,643) | (2,707) | (2,772) | (2,838) | (2,906) |
| SPV Costs | | | (163) | (167) | (171) | (175) | (179) | (184) | (189) | (193) | (198) | (203) | (208) | (213) | (219) | (224) | (230) |
| Net Operating Income | | | 2,298 | 2,290 | 2,281 | 2,271 | 2,259 | 2,247 | 2,234 | 2,220 | 2,205 | 2,189 | 2,172 | 2,154 | 2,134 | 2,113 | 2,091 |
| Debt Financing | 2.78% | | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) |
| Net operating Profit / Loss | | | 41 | 33 | 23 | 13 | 2 | (10) | (23) | (37) | (52) | (68) | (85) | (104) | (123) | (144) | (166) |
| Tax | | | (8) | (7) | (5) | (3) | (0) | | | | | | | | | | |
| Retained Profit | | | 33 | 26 | 19 | 11 | 2 | (10) | (23) | (37) | (52) | (68) | (85) | (104) | (123) | (144) | (166) |
| Retained Profit (Cumulative) | | | 1,255 | 1,281 | 1,300 | 1,310 | 1,312 | 1,302 | 1,280 | 1,243 | 1,191 | 1,123 | 1,038 | 934 | 811 | 667 | 501 |

Appendix 3 – Company 24 month profit and loss forecast

| 24 Month Profit and Loss Forecast | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Year 1 |
|-----------------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|
| | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | |
| Net Revenue Income | | 0 | 15 | 15 | 15 | 23 | 30 | 38 | 50 | 60 | 72 | 89 | 108 | 127 | 641 |
| Management and Maintenance Costs | | 0 | (4) | (6) | (8) | (11) | (13) | (16) | (20) | (24) | (28) | (33) | (38) | (43) | (245) |
| SPV Costs | | (306) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (618) |
| Interest | | 0 | (13) | (17) | (22) | (29) | (35) | (41) | (51) | (62) | (73) | (85) | (96) | (110) | (635) |
| Interest on Working Capital | Monthly | 0 | (0) | (0) | (0) | (1) | (0) | (1) | (1) | (0) | (1) | (1) | (0) | (1) | (6) |
| Surplus/(Deficit) | | (306) | (29) | (35) | (42) | (44) | (44) | (46) | (48) | (53) | (56) | (55) | (52) | (53) | (557) |
| | | | | | | | | | | | | | | | |
| | | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | | Year 2 |
| | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | | |
| Net Revenue Income | | 147 | 167 | 190 | 210 | 232 | 258 | 280 | 301 | 321 | 321 | 321 | 321 | | 3,071 |
| | 0 | (48) | (53) | (59) | (64) | (69) | (74) | (74) | (74) | (74) | (74) | (74) | (74) | | (811) |
| SPV Costs | | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | | (115) |
| Interest | | (122) | (134) | (149) | (162) | (174) | (186) | (186) | (186) | (186) | (186) | (186) | (186) | | (2,041) |
| Interest on Working Capital | Monthly | (1) | (0) | (1) | (1) | (0) | (1) | (1) | (1) | (2) | (2) | (1) | (2) | | (12) |
| Surplus/(Deficit) | | (33) | (30) | (29) | (26) | (20) | (12) | 9 | 31 | 50 | 50 | 51 | 50 | | 91 |

Appendix 4 – Company 24 month cash flow forecast

| 24 Month Cash Flow | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Year 1 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | Year 2 |
|----------------------------------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|---------|
| | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | |
| Cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loan | 95% | 3,719 | 1,947 | 1,947 | 2,061 | 2,869 | 2,646 | 2,869 | 4,409 | 4,811 | 4,659 | 5,055 | 5,114 | 5,940 | 48,044 | 5,074 | 5,586 | 6,577 | 5,449 | 5,312 | 5,163 | 0 | 0 | 0 | 0 | 0 | 0 | 33,160 |
| Equity | 5% | 196 | 102 | 102 | 108 | 151 | 139 | 151 | 232 | 253 | 245 | 266 | 269 | 313 | 2,529 | 267 | 294 | 346 | 287 | 280 | 272 | 0 | 0 | 0 | 0 | 0 | 0 | 1,745 |
| Total Capital Income | | 3,915 | 2,049 | 2,049 | 2,170 | 3,020 | 2,785 | 3,020 | 4,641 | 5,064 | 4,905 | 5,321 | 5,383 | 6,252 | 50,572 | 5,341 | 5,880 | 6,923 | 5,736 | 5,592 | 5,434 | 0 | 0 | 0 | 0 | 0 | 0 | 34,906 |
| Capital Purchases | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | | -3,866 | -1,974 | -1,974 | -2,091 | -2,906 | -2,685 | -2,906 | -4,474 | -4,886 | -4,724 | -5,118 | -5,178 | -6,012 | -48,793 | -5,138 | -5,653 | -6,650 | -5,520 | -5,384 | -5,218 | 0 | 0 | 0 | 0 | 0 | 0 | -33,562 |
| Works | | 0 | 0 | -19 | -39 | -59 | -69 | -76 | -85 | -98 | -118 | -136 | -145 | -152 | -996 | -168 | -168 | -173 | -182 | -185 | -180 | -166 | -110 | -56 | 0 | 0 | 0 | -1,387 |
| VAT | | | | | | -28 | | | -64 | | | -97 | | | | -131 | | -150 | | | -154 | | | -66 | | | | |
| Total Capital expenditure | | -3,915 | -1,974 | -1,993 | -2,130 | -2,992 | -2,754 | -2,981 | -4,623 | -4,985 | -4,842 | -5,351 | -5,323 | -6,164 | -50,027 | -5,437 | -5,820 | -6,823 | -5,852 | -5,569 | -5,398 | -320 | -110 | -56 | -66 | 0 | 0 | -35,451 |
| Capital cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Monthly | 0 | 75 | 56 | 40 | 27 | 32 | 39 | 18 | 79 | 62 | -30 | 60 | 88 | | -96 | 59 | 100 | -116 | 23 | 36 | -320 | -110 | -56 | -66 | 0 | 0 | |
| | Cumulative | 0 | 75 | 131 | 170 | 198 | 229 | 268 | 286 | 365 | 427 | 397 | 457 | 545 | | 449 | 509 | 608 | 493 | 516 | 552 | 232 | 122 | 66 | 0 | 0 | 0 | |
| Revenue | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross Rental Income | | 0 | 15 | 15 | 15 | 23 | 31 | 40 | 52 | 62 | 74 | 92 | 112 | 131 | 664 | 152 | 173 | 197 | 218 | 241 | 268 | 290 | 312 | 333 | 333 | 333 | 333 | 3,182 |
| Voids | 2% | 0 | 0 | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -3 | -13 | -3 | -3 | -4 | -4 | -5 | -5 | -6 | -6 | -7 | -7 | -7 | -7 | -64 |
| Bad Debts | 1½% | 0 | 0 | 0 | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -10 | -2 | -3 | -3 | -3 | -4 | -4 | -4 | -5 | -5 | -5 | -5 | -5 | -48 |
| Net Rental Income | | 0 | 15 | 15 | 15 | 23 | 30 | 38 | 50 | 60 | 72 | 89 | 108 | 127 | 641 | 147 | 167 | 190 | 210 | 232 | 258 | 280 | 301 | 321 | 321 | 321 | 321 | 3,071 |
| Management and Maintenance Costs | | | -4 | -5 | -7 | -9 | -11 | -14 | -17 | -20 | -24 | -28 | -32 | -36 | -207 | -40 | -45 | -50 | -54 | -58 | -63 | -63 | -63 | -63 | -63 | -63 | -63 | -685 |
| SPV Costs | | -255 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -515 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -96 |
| VAT | | | | | | -67 | | | -19 | | | -24 | | | -110 | -31 | | | -20 | | | -35 | | | -39 | | | -125 |
| Interest on Loan | | 0 | 0 | 0 | -53 | 0 | 0 | -105 | 0 | 0 | -187 | 0 | 0 | -291 | -635 | 0 | 0 | -405 | 0 | 0 | -521 | 0 | 0 | -557 | 0 | 0 | -557 | -2,041 |
| Interest of Working Capital | | | | | | 0 | -1 | 0 | -1 | -1 | 0 | -1 | -1 | 0 | -4 | -6 | -1 | 0 | -1 | -1 | 0 | -1 | -1 | -1 | -2 | -2 | -1 | -16 |
| Revenue Cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Monthly | -255 | -11 | -12 | -67 | -76 | -3 | -102 | -9 | 18 | -161 | 15 | 54 | -223 | | 62 | 113 | -273 | 127 | 165 | -334 | 174 | 229 | -307 | 210 | 249 | -307 | |
| | Cumulative | -255 | -265 | -278 | -344 | -420 | -423 | -525 | -534 | -516 | -677 | -663 | -609 | -831 | | -770 | -657 | -930 | -803 | -637 | -971 | -798 | -568 | -876 | -666 | -417 | -724 | |
| Total Cumulative Cash Flows | | -255 | -190 | -147 | -174 | -222 | -194 | -257 | -248 | -151 | -250 | -266 | -152 | -286 | | -321 | -148 | -321 | -310 | -122 | -420 | -566 | -446 | -810 | -666 | -417 | -724 | |

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Appendix 2

| | Adverse Variance | 30-Year Cost Increase | Property Cost | Required Equity Investment |
|---|---|-----------------------|---------------|----------------------------|
| | %age | £m | £m | £m |
| Base Position | 0% | 0 | 99.4 | 17 |
| 'Void' Periods & Uncollected Rents (Base Position: 3.5% loss) | 1% (i.e. 3.5% loss => 4.5% loss) | 1.8 | 99.4 | 19 |
| | 5% (3.5% => 8.5%) | 10.5 | 99.4 | 26 |
| | 10% (3.5% => 13.5%) | 21.5 | 99.4 | 34 |
| LHA Rates | 1% (i.e. 1% reduction in Base LHA Rate) | 1.7 | 99.4 | 19 |
| | 3% | 5.9 | 99.4 | 22 |
| | 5% | 10.1 | 99.4 | 25 |
| Management & Repairs | 1% (i.e. 1% cost increase) | 0.4 | 99.4 | 18 |
| | 5% | 2.5 | 99.4 | 19 |
| | 10% | 5.4 | 99.4 | 22 |
| Property Acquisition & Preparation for Letting | 1% (i.e. 1% cost increase) | 0.5 | 99.9 | 18 |
| | 5% | 3.4 | 102.1 | 20 |
| | 10% | 7.2 | 104.9 | 23 |
| Cost Inflation to Rent Inflation Margin (Base Position: Rent Inflation 1.5% less than Cost Inflation) | 0.5% (i.e. 1.5% gap => 2% gap) | 7.3 | 99.4 | 24 |
| | 1% | 15.8 | 99.4 | 32 |
| | 3% | 59.2 | 99.4 | 70 |

| | | | Mitigation | |
|---|---------------------------------|-------------|---|--|
| | Controllable/ Uncontrollable | Risk Rating | Within Purchasing Period | Additional Actions Beyond Purchasing Period |
| Extended 'Void' Periods & Increase in Uncollected Rents (Base Position: 3.5% collective loss) | Controllable | High | <ul style="list-style-type: none"> Review types of properties being purchased for intensity of management and repairs and pending major works Review tenancy agreements and accentuate tenant responsibilities with respect to property care and payment of rent | <ul style="list-style-type: none"> Review Management & Repairs contracts performance measures and renegotiate Check affordability criteria and increase level of assistance to tenants claiming state support Augment mechanisms in place to ensure full recharging of costs to tenants in cases of property maltreatment |
| Freezing or reduction in LHA Rates | Uncontrollable | Low | <ul style="list-style-type: none"> Buyers instructed to seek out properties with higher yields – purchasing period extended to allow for higher yield units to be sourced Loan agreement with LBB reviewed and renegotiated to allow for extended purchasing period Review alternative buying strategies and acquire high-yield properties that cater for wider cohort of homeless residents | <ul style="list-style-type: none"> Negotiate with LBB with a view to increasing the Council's equity investment contribution to reduce strain on revenue income streams Negotiate with LBB with a view to: <ol style="list-style-type: none"> extending the business plan time-horizon and subsequently; exploring possibilities for re-financing the business plan at a more preferential rate Limited stock tenure changes from sub-market to market rents Top-up fee on rent charged in additional to LHA in line with general Registered Provider practices |
| Increase in Management & Repairs Costs | Controllable | Low | <ul style="list-style-type: none"> Review types of properties being purchased for intensity of management and repairs costs | <ul style="list-style-type: none"> Client-side management of Management contracts to ensure inefficiencies being driven out Review of works carried out under repairs contracts to ensure necessity and quality |

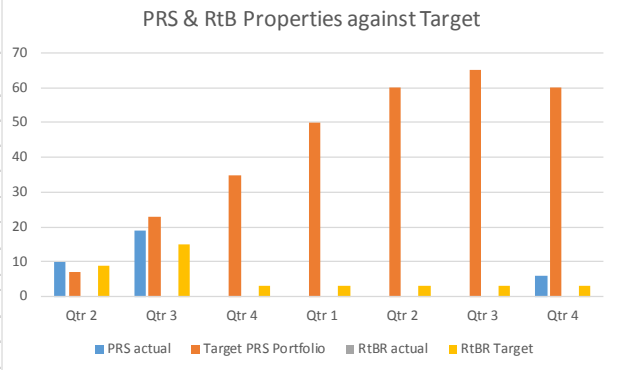
| | | | | |
|---|----------------|-----|---|--|
| | | | | <ul style="list-style-type: none"> Renegotiate and/or terminate & re-let Management and/or Repairs contracts |
| <p>Increase in Property Acquisition & Preparation for Letting Costs</p> | Controllable | Low | <ul style="list-style-type: none"> Change the location profile of property acquisitions (e.g. fewer of the 300 properties acquired to be located in areas where low yields are prevalent) Use of external buyers to tap into outer-borough, 'low cost/high yield' property market Reduce the ultimate size of the I4B portfolio to less than 300 units Increase the limit of the loan facility (to more than £100m) | <ul style="list-style-type: none"> Negotiate with LBB with a view to increasing the Council's equity investment contribution to reduce debt servicing requirement |
| <p>Page 53</p> <p>Cost Inflation to Rent Inflation Margin (Base Position: Rent Inflation 1.5% less than Cost Inflation)</p> | Uncontrollable | Low | <ul style="list-style-type: none"> Inflation impact unlikely to crystallise during property purchasing period | <ul style="list-style-type: none"> Negotiate with LBB with a view to increasing the Council's equity investment contribution to reduce strain on revenue income streams Negotiate with LBB with a view to: <ol style="list-style-type: none"> extending the business plan time-horizon and subsequently; exploring possibilities for re-financing the business plan at a more preferential rate Limited stock tenure changes from sub-market to market rents |

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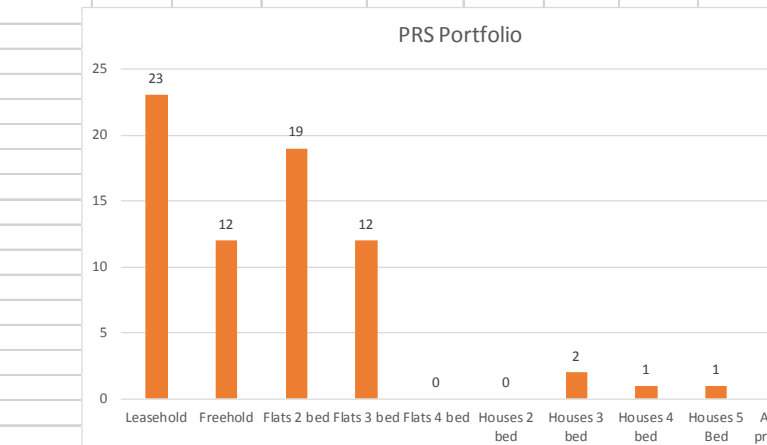
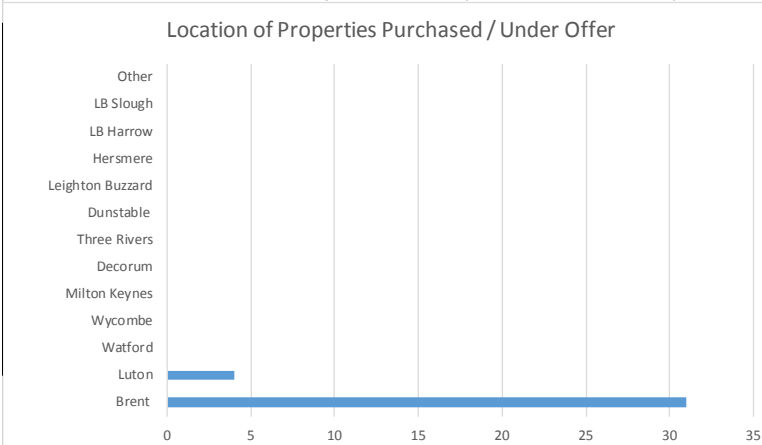
PRS & Right to Buy Receipts Acquisition Programme Dashboard & Comments

9th August 2016

| Number of units acquired and Value | | |
|------------------------------------|---------------|------------------------|
| Funding source | No | Value £000s |
| PRS Units 2016/2017 | 29 | £10,305 |
| PRS Units 2017/2018 | 6 | £2,270 |
| RtB Receipts 2016/2017 | 0 | £0 |
| RtB Receipts 2017/2018 | 0 | £0 |
| Average Purchase Price | PRS Portfolio | RtBR |
| | £359,000 | |
| Funding Source | Target Yield | Average yield achieved |
| PRS Portfolio | 2.90% | 3.63% |
| RtBR | N/A | N/A |



Comment: Targets were produced to support PRS and RtB receipt spend. Qtr 2 PRS acquisitions have progressed well with 10 properties due to be purchased by end September. 19 PRS acquisitions are also progressing through conveyancing and will be purchased in Qtr 3. Currently there is no working model to support the acquisition of properties using RtB receipts. Although the pre offer yield is good at 3.63% the average purchase price for PRS properties is high. Work is required to refine our approach between property numbers, property price and location. A second tranche of £20m is being requested of Cabinet and a Cabinet report requesting an increased on the £60m Budget is being prepared. There are a number of developers seeking to work with the council to build modular homes and buy off plan. These potentially could ensure high volume supply for years 2 qtr 3 & 4



Comment: 88% (31) of properties have been purchase within Brent and 4 properties secured in Luton. Social Finance had identified a number of localities which would have sufficient market movement to support and acquisition programme and keep costs down. The top ten of these locations are shown on the chart. Greater analysis and a strategic steer is required to decide if the portfolio should be spread or concentrated within a few localities.

Comment; The PRS portfolio is dominated by apartments (86%) with just 4 houses. However the houses are 3,4 & 5 bedroom and will help unlock a limited number of challenging homeless cases. Some of the apartments have been purchasd as a block and therefore the freehold of the property has been secured providing greater control over service charge costs and capital property works. One property includes an adapted bathroom.

| PRS company KPIs | | |
|--|---|----------|
| | Target | Achieved |
| Properties Acquired | N/A | |
| Properties Void | N/A | |
| ave days as a standard void | 22 days (sub 19 days desired) | |
| number of standard voids | | |
| ave days as a major void | 67 days (sub 44 days desired) | |
| number of major voids | | |
| ave days as a refurbishment/conversion void | 100 days (bespoke) | |
| number of conversions | N/A | |
| Properties in occupation | 100% of available properties | |
| % of rent collected of rent due | 98% plus | |
| Average cost of a void | TBC | |
| Number of days to let a property once available. | 2 days (19 days for a standard void and 44 days for a major void. | |
| Number of evictions | Nil | |
| Customer satisfaction | annual survey 88% satisfaction | |
| Number of complaints | N/A | |

Comments: The business plan of the new company contains a number of risks of including poor rent collection, lost rent as a result of the property being unoccupied and the cost of void work. The company will also need to ensure a positive reputation is developed and customer concerns are managed well. Information for this chart will be generated over time.

Actions:

Resolve Right to Buy Receipt model - current assumption is that RtBR model if unable to support acquisitions

New company to be set up as a non Teckle subsidiary company of the Council's new housing and regeneration company.

Repeat yield calculation for properties once all costs are confirmed and develop company business plan - costs, fees, white goods,

Procure a management agent for Luton properties

Draft Service Level Agreement between LB Brent & BHP - Housing management, void management and nominations


Gain support for £20m draw down October 2016 and present update big picture report to Cabinet with additional programme funding request cica £30m (£60m+£30m)

Profile bulk purchase and off plan opportunities. Refine our request for non Brent locations.

Draft The New Company's Tenancy Agreement and policies

Refine approach to acquisitions to reduce average purchase price per dwelling and seek to purchases properties in up and coming areas to increase corporate capital return over time.

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|  <p>Brent</p> | <p>Audit Advisory Committee 20 September 2017</p> <p>Report from Council Management Team</p> |
| For information | Wards Affected: ALL |
| <p>CMT response to report from I4B Holdings Ltd.</p> | |

1. Summary

- 1.1. I4B Holdings Ltd presented its first report to the Council Management Team (CMT) on 24 August 2017. This report presents CMT's response.

2. Recommendations

- 2.1. Audit Advisory Committee notes the response from CMT to the report from the Board of I4B Holdings Ltd (the Company).

3. Background

- 3.1 On 24 August 2017, CMT considered a report from the Board of I4B Holdings Ltd. The report provided an update on mobilisation of the Company, progress against the objectives set out in the Company's business plan and ongoing actions to address challenges which had arisen during the Company's first nine months of operation.
- 3.2 CMT noted the progress set out in the Company's report and recognised that a considerable amount had been achieved bearing in mind that this was a new way of working for the Council. CMT also noted that there is additional work to do in relation to ensuring effective operation of the Company, in particular in ensuring clarity about the roles of the Council and the Company and the relationship between the two entities.
- 3.3 CMT considered three specific issues:
 - How to ensure that the Company's work meets the housing needs of people in Brent as well as meeting the Company's objectives.
 - How to ensure that services provided to the Company by Council departments through the Service Level Agreement are effective and timely in supporting the Company to deliver its objectives.

- Various operational scenarios to determine the extent to which equity investment is likely to be needed and how this level of support can be provided from within Council resources.

4. Comments on I4B Holdings Ltd report

Update on mobilisation

- 4.1 CMT noted the progress which has been made by the Company in becoming incorporated and putting in place relevant systems and processes, for example Company policies and governance arrangements. It recognised that this work is detailed and time consuming and agreed to ensure necessary support is in place for the Company.
- 4.2 CMT agreed that lessons learnt from the set up of I4B Holdings Ltd should be used to inform the development of future limited companies by the Council

Delivery against original objectives

- 4.3 CMT recognised that the target of 300 homes for £100,000,000 was always an estimated figure and while the Company will prioritise meeting this target, it may need to flex this and purchase some properties for market rent in order to cross-subsidise the purchase of properties that would be let out at LHA rates. This would also enable the purchase of more properties in Brent, where it has been difficult to achieve the required yield to value ratios, as a result of inflated property values.
- 4.4 CMT noted the good progress which has been made by the Company in becoming incorporated and putting in place relevant systems and processes. However, CMT also noted some issues, raised by the Company, about the use of Council services via the SLA which have not been as flexible and agile as required. However, CMT also noted that this has been a new way of working and learning from the establishment of I4B is being used to improve ways of working as well as to inform future projects. In addition, had the Company opted to obtain external support, this would not have resulted in mobilisation being undertaken more quickly.
- 4.5 CMT also noted that the Company is currently primarily purchasing smaller units, as these fit the financial model better, and at present there is sufficient demand for this. CMT recognised that the primary purpose of the Company is to help the Council to achieve its regeneration objectives, including increasing the supply of housing across a range of tenures including for sale. CMT reaffirmed its priority to support the TA Reduction Plan.
- 4.6 CMT discussed the level of support required when setting up an organisation of this nature and how the arrangements with various departments operate and are coordinated. In particular, this included a discussion around the acquisitions process. CMT also discussed the advantages and disadvantages inherent in the Company using Council services rather than outsourcing and noted that the Company prefers the agility offered by shorter contracts. A revised SLA between the Company and the Council is being developed building in the lessons learnt through work to date.

- 4.7 CMT noted the sensitivities within the financial model of changing yields and the impact this has on the equity/loan ratio.
- 4.8 CMT noted the Company's intention to revise its business plan which will be provided to Cabinet for agreement.

5. Financial Implications

- 5.1 There are no direct Financial Implications arising from CMT's response to the report from I4B Holdings Ltd.

6 Legal Implications

- 6.1 There are no direct Legal Implications arising from CMT's response to the report from I4B Holdings Ltd.

7. Diversity Implications

- 7.1 None identified.


8 Staffing/Accommodation Implications (if appropriate)

- 8.1 None identified.

Contact Officers

Conrad Hall, Chief Finance Officer

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|---|--|
|  Brent | <p style="text-align: center;">Audit Advisory Committee 20 September 2017</p> <p style="text-align: center;">Report from the Director, Performance Policy & Partnerships</p> |
| For Information | Wards Affected: ALL |
| <p style="text-align: center;">Review of the Member Learning and Development Programme</p> | |

1.0 Summary

- 1.1 The purpose of this report is to provide members of the Audit Advisory Committee with a summary of the Member Development Programme. A similar report has been considered by the Standards Committee.
- 1.2 This report outlines the member learning and development sessions delivered for members since May 2016, as well as the current quarter of the member learning and development programme (June to December 2017).
- 1.3 The report also provides an outline of the Member induction programme to be delivered following the May 2018 Local Elections.

2.0 Recommendations

- 2.1 Members are asked to note the content of this report.

3.0 Detail – Member Development

- 3.1 In addition to annual review by members of the Standards Committee, the member learning and development programme is monitored quarterly by the Member Learning and Development Steering Group which is chaired by the Leader of the Council.
- 3.2 The Member Learning and Development Steering Group provides invaluable member and Chief Officer input into the future programme. The scope of the Group is to consider the type of training provided and review attendance at the sessions, and consider any requests and suggestions for training from Members.

Member Learning and Development Sessions delivered May 2016 – July 2017:

- 3.3 A significant number of member development sessions have been held during the course of this municipal year.
- 3.4 These have been delivered mostly by internal officers and partners, with some external facilitators:
- Alcohol & Entertainment Licensing Committee Training - 23 May 2016
 - Effective Scrutiny - 26 May 2016
 - Viability, Section 106 and CIL: Councillor Involvement in pre-applications - 28 May 2016
 - Ensuring Effective Meetings - 09 June 2016
 - Personal Health & Safety Training for Councillors - 30 June 2016

 - Standards and the Code of Conduct - 26 July 2016
 - Influencing Workshop - 28 July 2016
 - Mandatory Training for Planning Committee Members & Substitutes - 30 August 2016
 - Managing Conflict as a Councillor - 08 September 2016
 - Housing Strategy & Development Seminar - 15 September 2016

 - Sustainability and Transformation Plan Session (STP) - 4 October 2016
 - Scrutiny Training (Modern.gov) - 11 October 2016
 - Housing management Options for Council Tenants and Leaseholders - 17 October 2016
 - Customer Promise - 25 October 2016
 - Social Media - 'Getting the most out of social media' - 10 November 2016
 - Private Rented Sector Licensing - 22 November 2016
 - Alcohol and Entertainment Licensing Committee Mandatory training - 1 December 2016
 - Corporate Parents and safeguarding children and young people - 13 December 2016
 - FIDA - In Depth Ideology Training for Councillors - 12 January 2017
 - High Streets Strategy - 19 January 2017
 - Safeguarding Adults Board - 25 January 2017
 - Group's first session: Social Value Advisory Group - 31 January 2017

 - Member Informal briefing session on Virtual Permit Demo. - 6 February
 - Working effectively with officers to deliver services for residents (LGA) - 9 February 2017
 - Controlled Drinking Zone and Licensing Policy - 21 February 2017
 - Brent's Local Plan Visioning Exercise - 7 March 2017
 - Social media training for Cabinet Members - 9 March 2017
 - Development Management Policies - 20 March 2017
 - Health and Wellbeing Board - Prevention Matters Seminar - 25 March

2017

- Highways Maintenance - 29 March 2017
- The Brent Air Quality Action Plan: 2017 – 2022 - 19 April 2017
- Planning Committee Training - Mandatory - 23 May 2017
- Alcohol and Entertainment Licensing training for Committee Members - Mandatory - 24 May 2017
- Scrutiny Induction - 25 May 2017
- Planning and Affordable Housing - 13 June 2017
- Audit Committee and the Audit Advisory Committee - Mandatory training – 19 June 2017
- Spending the Neighbourhood Portion of the Community Infrastructure Levy (CIL) - 13 July 2017
- Mayor's Transport Strategy – 1 August 2017
- Fire safety in Brent - 20 June 2017 and 3 July 2017

Further scheduled sessions:

- Street Drinking to cover PSPOs and Licensing – tbc October 2017
- CCTV, Met Patrol Plus, Safer Brent, 20 November 2017
- Welfare Reform – Universal Credit and Housing Benefit changes – November 2017
- Welfare Reform – Universal Credit and Housing Benefit changes – December 2017
- Safeguarding Children and Young People – 7 December 2017

Attendance at internal training events

- 3.5 Member attendance at internal learning and development sessions has varied for each session during the current municipal year.
- 3.6 Overall, member attendance has been encouraging. Of the **37** sessions delivered during the May 2016 to August 2017 period, **8** sessions were attended by **15** members or more; **12** sessions were attended by 10 members or more.
- 3.7 The most attended sessions were the 'Effective Scrutiny' and the 'Virtual Permit Demo' sessions. Encouragingly, the LGA 'Working Effectively with Officers to Deliver Services for Residents, which was not mandatory, was attended by 20 members.
- 3.8 The first trial of a 'Saturday' session, held from 9:15am to 3:30pm, was well received by members as feedback demonstrated. 17 members attended this session.
- 3.9 Understandably, sessions with the lowest attendance tended to be those aimed at specific committee membership.
- 3.10 There do not appear to be any other particular trends relating to subject matter or the timing of the courses which would assist in identifying further why some members choose not to attend training sessions.

- 3.11 Currently the Member Development Programme is advertised to all members via the weekly Members' Information Bulletin. Reminders are issued on a weekly basis, also via the Members' Information Bulletin, text message and email. A system of sending reminders to the sessions via text message was launched in February 2017 and feedback has been very positive.

Attendance at external events May 2016 – May 2017:

- 3.12 Since May 2016, Members have attended a number of external events delivered by organisations including the Local Government Association (LGA), London Councils, and the Local Government Information Unit (LGIU).
- 3.13 Programme content has included the CfPS Annual Conference, BAME Councillors Development Weekender, Devolution and Economic Growth in London Seminar and Leadership Essentials - Counter Extremism. The Member Learning and Development working group considers all attendance at external sessions.

Mentoring

- 3.14 The LGA has been providing mentors with relevant skills and experience to deliver 1:1 mentoring support to a number of members during this period.
12 elected Members have now taken advantage of this opportunity. The individual mentoring sessions been well received.

Development support for the 'Top Team'

- 3.15 The LGA has delivered two sessions to support the council's 'Top Team' (i.e. Cabinet and Corporate Management Team) to develop their effectiveness in their strategic leadership of the council to deliver its vision and strategic priorities.
- 3.16 The sessions were delivered in July and September 2016 by LGA Associate Mhairi Cameron and Cllr Sir Steve Houghton, Leader of Barnsley MBC.

Public Speaking

- 3.17 In response to requests from a number of Councillors, the Member Learning and Development Working Group agreed to offer an LGA run Councillor Public Speaking Course in March 2017. This was offered to all Members.

The purpose of the course was to improve Members' ability to present and communicate more effectively and dynamically.

The course comprised different exercises for Members to discover more

about what works and what could be improved in their ability to present.

14 Members signed up for the public speaking course. This course was delivered over two days, followed by a 1-1 session for each Member with the trainer. The feedback received from Members after the course was positive.

Feedback from members regarding the member development programme

- 3.18 Feedback is sought from members following each training event attended; however the use of an electronic link intended to allow members to provide information without the use of paper has not proven as successful as hoped.
- 3.19 Levels of feedback submitted dropped dramatically, and as a result, paper copies of feedback forms have now been re-introduced.

Organisational and political support

- 3.20 The Member Learning and Development Steering Group has consistently provided constructive input and evaluation during previous terms of office and it is anticipated this support will continue given the Chair of the group is now the Leader of the Council and the Chief Executive attends. A strong political lead on member development from all groups is essential to ensure member ownership of the programme.

Member Development Charter Award

- 3.21 The Council received a Charter Plus Assessment Interim visit on 18 October 2016. The assessor confirmed that Brent Council continues to meet the standard of the London Charter Plus for Elected Member Development.
- 3.22 The assessor confirmed that the Council continues to have a strong strategic commitment to member development that the Council has responded to the recommendations following the September 2015 assessment and has also moved forward with a comprehensive member development programme.
- 3.23 The assessment noted that :
- The Council has a comprehensive member development programme that consists of high quality external facilitators and a particular focus on community leadership and neighbourhood engagement;
 - The Council has positively embraced and taken forward the recommendations highlighted in the Members Needs Analysis Report 2014;
 - Members have embraced the opportunity provided through the mentoring programme and many external Member mentors are in place to support Lead Members and Committee Chairs.

3.24 The assessor suggested several areas for improvement:

- The council should have a process in place to review PDPs mid-term and to set new individual development priorities for councillors.
- The development of Community Action Groups.
- Continues to support and build on, leadership development both for Cabinet members and for all councillors as community leaders.
- Continue to seek opportunities to learn from good practice from other authorities and external organisations.

Member Needs Analysis Development Programme

3.25 Brent Council provided all Members with the opportunity to undertake a refresh of the Member Needs Analysis Development Plan that was initially undertaken in September - October 2014. In addition to the refresh, Councillors who had been able to engage in the programme were invited to participate.

The approach undertaken was based on a structured one to one discussion and the completion of a Member Needs Analysis Development Plan, the purpose being to support each Councillor to identify what information and development they required to effectively continue to fulfil their role as a Brent Councillor.

The one to one discussion and questionnaire was confidential and informed the key findings and recommendations within this summary report.

4.0 Induction Programme 2018

4.1 A prospective candidate event will take place on Saturday 14 October 2017 for prospective candidates in the May 2018 Local Elections. This session will focus on the practicalities of being a councillor at Brent. Candidates will hear about what it's like to be an Elected Member and what support mechanisms are in place once elected.

4.2 Sessions will cover:

- An overview and an introduction to the Local Government landscape including: About Brent Council, Local Government including structure and responsibilities, budget, composition of the council, cabinet, scrutiny;
- The role of a Councillor - introduction to the role and duties of all members, specific member roles, code of conduct;
- Council elections 2018 - Election timescales, induction, further information.

4.3 A brief introductory pack will be sent to all prospective councillors in early 2018. This pack will include the outline draft induction programme and a link to the 'Be a Councillor' page from the LGA website.

- 4.4 We are planning to launch the comprehensive induction for new and returning Members on Monday, 21 May 2018. In addition to the comprehensive mandatory training programme, role specific training and I.T induction will take place soon after the local elections in May and during June 2018.
- 4.5 Following the success of the 2014 programme, we will be following the same model. The Member Learning and Development working group will steer the induction programme, designing it for Members.

5.0 Diversity Implications

This report contains no specific diversity implications

Contact Officer

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PETER GADSDON
DIRECTOR PERFORMANCE POLICY & PARTNERSHIPS

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External audit progress report

London Borough of Brent
External audit 2016-17

September 2017

External Audit Progress Report

Since the last meeting of the Audit Committee in June 2017 we have...

- Substantially completed the audit of your financial statements including Pension Fund – see separate external audit report;
- Substantially completed the work required to issue our VFM conclusion;
- Commenced the review of the Pension Fund Annual Report;
- Commenced work on the Whole of Government Accounts consolidation schedule;
- Started the detailed testing of the Housing Benefit claim;
- Issued five separate provisional view letters, with the documents we considered material, on the objections relating to the payment made to the former Human Resources Director and associated matters. We have received responses from the electors and the Council following our provisional view letters and are currently reviewing these responses with additional information provided; and
- Received from the Authority initial evidence for the processes and controls in place for one of the LOBO loans. We are currently looking at this to determine if the type and level of detail provided would be sufficient for the other loans, before the Authority uses resources to locate evidence for the other loans.

We ask the Audit Committee to:

- **NOTE** this progress report

| | | |
|----------|---|--|
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| | | |



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


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|---|---|
|  Brent | Audit Committee 20 September 2017 Report of the Chief Finance Officer |
| For information | Wards affected: ALL |
| Statement of Accounts 2016/17 and External Auditor's Report | |

Summary

- 1.1 The Audit Committee has responsibility for considering issues raised by the external auditors as part of the process of approving the annual statement of accounts. The basis for this consideration is the “report to those charged with governance” also referred to as the ISA260 report. The Council’s external auditors, KPMG, produce the report following completion of the audit of accounts. The report is intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. It also provides the findings from the value for money conclusion for the year.
- 1.2 At the time of writing this report, KPMG are in the process of completing the audit of the 2016/17 accounts and their report to those charged with governance (ISA260 report), reflecting the current position, is attached as Appendix 1 to this report. Based on the current position KPMG intends to give unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion.
- 1.3 Representatives from KPMG will attend the meeting to provide an update on the audit and respond to any matters raised by the Committee.

2.0 Recommendations

The Committee is asked to:

- 2.1 Review the report to those charged with Governance from KPMG and:
 - consider the key issues and recommendations
 - consider the corrected audit differences
 - approve the statement of accounts
 - approve the letter of representation to KPMG

3.0 Detail

Statement of Accounts

- 3.1 The draft statement of accounts for 2016/17 was presented to the Committee at its meeting on 26 June 2017. The audit of the accounts commenced in July.
- 3.2 The attached ISA260 report sets out the anticipated results of the audit with the key points being:
- Unqualified audit opinion
 - Positive feedback on the accounts production and audit process
 - the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources

As a result of the audit a number of adjustments to the accounts have been agreed by council officers and KPMG. These are shown in section three of the auditor's report. The only material adjustment is as a result of additional data available after the production of the draft accounts, and is an update of an estimate rather than an error in production. Although these adjustments are significant in value they do not have any impact on the council's general fund or HRA position. As a result of these adjustments the value of the council's assets and the Council's unusable reserves have increased. There is also an adjustment to ensure that section 106 funds were fully utilised.

Publication of Statement of Accounts

- 3.3 The Council is required to publish the 2016/17 accounts by 30 September 2017. Once approved, the statement of accounts will be published on the Council's website.
- 3.4 Once the audit has been completed a Letter of Representation needs to be signed prior to KPMG issuing an audit opinion. A draft letter, setting out confirmation from the Council regarding the financial statements and information provided as part of the audit process, is attached as Appendix 2

4.0 Financial Implications

- 4.1 There have been some adjustments to the Statement of Accounts during the course of the audit. None of these have impacted on the medium term financial position of the Council.

5.0 Legal Implications

- 5.1 No specific implications.

6.0 Diversity Implications

- 6.1 No specific implications

7.0 Staffing Implications

7.1 No specific implications.

8.0 **Background Information**

Draft Accounts to Audit Advisory Committee – 22 June 2017

Contact Officer

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CONRAD HALL

Chief Finance Officer

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External Audit Report 2016/17

London Borough of Brent

September 2017 - DRAFT

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Brent (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. Aspects of the following work is ongoing:

- Financial statements audit – receipt of the audited Brent Housing Partnership accounts and minor queries on expenditure, creditors and Pension Fund investments;
- Whole of Governments Accounts – agreement of inter authority balances and allocation of income and expenditure;
- Review of the Pension Fund Annual Report;
- VFM – consideration of partnerships;
- Senior manager and partner final reviews;
- Updated financial statements; and
- Completion procedures including review of post balance sheet events up- to the date of signing and receipt of the signed management representation letter.

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements prior to the deadline of 30 September 2017, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements prior to the deadline of 30 September 2017.

Subject to the matters on page 3, we have completed our audit of the financial statements. We have read the narrative report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences, there was two adjusted audit difference and one adjustment relating to an update of an estimate made when preparing the accounts. We discussed and agreed some minor presentational changes to the accounts with officers.
- As in prior years we are asking for one management representation in addition to the routine items, this is to confirm that there have been no contract variations to the PFI Schemes during the year.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We have received one objection from a local elector this year which we are currently deciding whether to accept.
- In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as we have six objections, covering two areas, relating to the 2015/16 financial statements that we are in the process of considering.

Value for money – see section 3 for further details

Based on the findings of our work, and subject to satisfactory completion of our work in relation to partnerships, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion prior to the deadline of 30 September 2017.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements..

The National Audit Office Code of Audit Practice (the Code) requires that auditors should consider:

- whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public; and
- whether to use powers under the Local Audit and Accountability Act 2014 to make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We have issued no such reports or recommendations.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2015/16. We have made one new recommendation as a result of our 2016/17 work. The recommendations relates to the controls over providing accurate data for members of the Pension Scheme to the actuaries and is shown in appendix 1.

We undertake the audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started and the deadlines are 30 November. The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

| Work Performed | Accounts production stage | | |
|--|---------------------------|--------|-------|
| | Before | During | After |
| 1. Business understanding: review your operations | ✓ | ✓ | – |
| 2. Controls: assess the control framework | ✓ | – | – |
| 3. Prepared by Client Request (PBC): issue our prepared by client request | ✓ | – | – |
| 4. Accounting standards: agree the impact of any new accounting standards | ✓ | ✓ | – |
| 5. Accounts production: review the accounts production process | ✓ | ✓ | ✓ |
| 6. Testing: test and confirm material or significant balances and disclosures | – | ✓ | ✓ |
| 7. Representations and opinions: seek and provide representations before issuing our opinions | ✓ | ✓ | ✓ |

We have completed the first six stages and report our key findings below:

| | |
|--|--|
| 1. Business understanding | In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section. |
| 2. Assessment of the control environment | We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made one recommendation relating to the controls over providing accurate data for members of the Pension Scheme to the actuaries. We believe that the recommendation (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. |
| 3. Prepared by client request (PBC) | We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with officers and this was issued as a final document to the finance team. The working papers were generally of a good standard although elements of debtors and creditors could be strengthened. |

Section Two

Financial statements audit

| | |
|-------------------------|--|
| 4. Accounting standards | <p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none"> • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: • Amended guidance on the Annual Governance Statement: and • Changes in the format of the Pension Fund accounts. <p>There were no issues arising from these changes that we need to report to you.</p> |
| 5. Accounts Production | <p>We received draft financial statements on 19 June 2017, nearly two weeks in advance of the statutory deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The statutory deadline for publishing the draft financial statements is being brought forwards in 2017/18 to 31 May 2018, with an audit deadline of 31 July 2018 and the Authority will need to ensure that this deadline will be achieved, building upon the work completed this year.</p> <p>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p> |
| 6. Testing | <p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We identified one adjusted audit difference of £4.2 million which reduced debtors and creditors, one adjustment of £730,000 relating to a transfer between reserves and the Council revised an estimate used in the valuation of Council dwellings and PFI properties as more accurate information became available after the financial statements had been prepared. Details of these are shown in Appendix 2. We also identified a number of presentational changes to the accounts which the Authority adjusted.</p> |
| 7. Representations | <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Finance Officer on 4 September 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations that there have been no variations to PFI contracts this year.</p> |

Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

Page 84 There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 16/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

84 The results of the procedures we performed over the following areas which were identified as significant risks, or other areas of audit focus, within our audit plan;

- LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only);
 - Property, Plant and Equipment: Council dwellings and Other Land and Buildings valuations (Authority only);
 - Risk of Revenue Recognition for section 106 income (Authority only);
 - Investments (Pension Fund only); and
 - Restatement of CIES, EFA and MIRS (disclosure, Authority only)
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
 - Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

| SIGNIFICANT audit risk | Account balances effected | Background and summary of findings |
|---|---|--|
| Risk : LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only) | <p>Authority – pension liability at 31 March 2017 £818 million</p> <p><i>PY £635 million</i></p> <p>Pension Fund – disclosures on the triennial valuation including net liabilities of £833 million</p> <p><i>PY £731 million</i></p> | <p>The triennial valuation at 31 March 2016 forms the basis for contributions to the Pension Fund for the three years from 1 April 2017 and the baseline assumptions for the Authority's annual IAS 19 valuation. We reviewed the approach to the valuation, the qualifications, actuarial assumptions and reports by the Authority's actuary and data submitted for the whole Pension Fund.</p> <p>The initial detailed information provided by the Authority to the actuary relating to members of the pension scheme as part of the Pension Fund triennial valuation contained various errors and the Authority liaised with the actuary to resolve these. We have made a recommendation in relation to this. We completed our testing on the revised figures provided and were satisfied with the figures provided.</p> <p>Our review did not identify any other issues to bring to your attention.</p> <p>For the annual IAS 19 valuation we completed a similar review on the data provided and actuarial assumptions made for the Authority and confirmed that the figures are accurately reflected in the Authority's financial statements.</p> <p>Our review did not identify any issues to bring to your attention.</p> |
| Risk ; Property, Plant and Equipment: Valuation of Council dwellings and Other Land and Buildings (Authority only) | <p>Council dwellings £650 million</p> <p><i>PY £635 million</i></p> <p>Other Land and Buildings £639 million</p> <p><i>PY £606 million</i></p> | <p>We undertook detailed testing of Property, Plant and Equipment as part of our final accounts audit, including specific testing of the asset valuation. We reviewed the approach to valuation, the qualifications and reports by the Authority's valuers and the judgements made by the Authority in response to the information received and found the method and assumptions used to be reasonable.</p> <p>We considered the basis on which the valuation has been carried out to ensure it is in line with <i>The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i>. We carried out testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements.</p> <p>An adjustment was made to Council dwellings of £30m and other land and buildings of £4m as the Authority revised the estimate used for house price inflation following more accurate information becoming available after the accounts were prepared. This difference was a result of updates to the Land Registry data following the preparation of the accounts rather than any errors or processes adopted by the Authority in preparing their accounts. There are no further matters we need to bring to your attention.</p> |
| Risk ; Investments: Valuation and completeness (Pension Fund only) | <p>Investments</p> <p>£802 million</p> <p><i>PY £674 million</i></p> | <p>We have obtained direct confirmations from the Fund managers and the Custodian and reconciled these to the financial statements, We have also reviewed the ISAE3402 compliance reports for the Fund Managers to give us assurance over their controls.</p> <p>Our review did not identify any issues to bring to your attention.</p> |

Section Two

Financial statements audit

| SIGNIFICANT audit risk | Account balances effected | Background and summary of findings |
|--|--|---|
| Risk : Risk of Revenue Recognition for section 106 income (Authority only); | Earmarked reserves £24 million <i>PY £24 million</i> | We undertook testing of monies received in respect of s106 agreements that were transferred into the reserve and also reviewed the year end balances to ensure that amounts carried forwards remained valid and available to use. Our review did not identify any issues to bring to your attention. |

Other areas of audit focus

We identified one other area of audit focus. This is not considered to be a significant risks as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no material misstatement.

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|--|---|
| Risk: Restatement of CIES, EFA and MIRS (Authority only) | CIES gross expenditure £1,122 million <i>PY £1,098 million</i> | Changes to the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 were made to the presentation of the Comprehensive Income and Expenditure Account and Movement in Reserves Statement (MiRS) together with a new Expenditure and Funding Analysis (EFA). We reviewed the layout of the revised statements and the approach to the restatement of the prior year figures comparing them to how figures are reported throughout the year. We confirmed that expenditure and income was being recorded correctly. Our review did not identify any issues to bring to your attention. |

Section Two

Financial statements audit

| Risks that ISAs require us to assess in all cases | Why | Our findings from the audit |
|---|--|--|
| Fraud risk from revenue recognition | <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies that span financial years and often have to be used on specific projects, see page 10.</p> | There are no matters arising from this work that we need to bring to your attention. |
| Fraud risk from management override of controls | <p>Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p> | There are no matters arising from this work that we need to bring to your attention. |

Section Two

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Page 88

Assessment of subjective areas

| Asset / liability class | Current year | Prior year | Balance (£m) | KPMG comment |
|-------------------------------------|--------------|------------|------------------------------------|---|
| Provisions | 3 | 3 | £22 million (PY: £16 million) | We consider the provisions to be proportionate. The main provisions on insurance and business rates appeals are consistent with the prior year and in line with our expectations. We have reviewed the increase of £4.7 million in outstanding legal cases and found the items tested were supported by appropriate estimates. |
| Creditors including accruals | 3 | 3 | £111 million (PY: £107 million) | The main creditors are consistent with the prior year and in line with our expectations. We consider the provisions to be appropriate. |
| Debtors | 3 | 3 | £90 million (PY: £80 million) | Debtors consist of gross debtors of £143 million (2015:16 £133 million) with provision for impairment made of £53 million (2015/16: £53 million). The main categories of impairments are for overpaid housing benefits, business rates and Council Tax. We consider the provisions to be appropriate. |
| Pensions liability | 3 | 3 | £818 million (PY: £636 million) | The Authority uses Hymans Robertson as an actuarial expert to assist them in calculating the pension liability. We reviewed the discount rate, inflation, discount rate, salary growth and life expectancy rates used by the Authority and these are in line with the range expected. The increase in the liability is mainly due to a decrease in the discount rate. |

Section Two

Financial statements audit

| Assessment of subjective areas | | | | |
|---|--------------|------------|------------------------------------|---|
| Asset / liability class | Current year | Prior year | Balance (£m) | KPMG comment |
| Property, Plant and Equipment – other land and buildings (valuations / asset lives) | 3 | 3 | £639 million (PY: £606 million) | The Authority uses a mixture of internal and external valuers to revalue other land and buildings and has followed the valuation and asset lives supplied by the valuers. We reviewed the instructions provided and deem that the valuation exercise was completed in line with the instructions provided. |
| Property, Plant and Equipment – Council dwellings (valuations) | 3 | 3 | £650 million (PY: £635 million) | The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. A full revaluation of Council dwellings using this method was undertaken on 1 April 2016 and incorporated into the 2015/16 financial statements and this was adjusted to take account of movements in house prices in Brent during the financial year. The Authority used the latest data available from the HM Land Registry UK House Price Index when the accounts were prepared and adjusted the valuation downwards by 2.31%. At the time of the audit, the Index had been revised following additional sales being registered and the Index was showing an increase of 2.47% by 31 August. The Authority decided to adjust the estimate used to reflect the updated more accurate information that became available after the accounts were prepared. Our overall view is that the figure used is balanced. |

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund was completed alongside the main audit. We have reported our finding against the significant risks and areas of audit concern alongside the main Authority on pages 9 to 11. There are no specific matters to bring to your attention relating to this.

Pension Fund Annual Report

We received the complete Pension Fund Annual Report on 6 September 2017. We anticipate completing our review on the Report and issuing our opinion on the Pension Fund Annual Report during September.

Section Two

Financial statements audit

Queries from local electors

We received an objection from a member of the public in respect of the audit year. We have completed some initial enquiries and are currently deciding whether we will accept the objection.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are expecting to complete the work on the Whole of Government Accounts and Pension Fund Annual Report by the time we issue our audit opinion but we are not in a position to issue our audit certificate with the audit opinion as:

We have received an objection from a local elector that we need to consider and follow the legislative process.

We accepted six objections relating to the 2015/16 that we are still in the process of deciding.

Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Whole of Government Accounts (WGA)

We received your WGA consolidation pack on 23 August 2017 and are currently carrying out our work on this. We anticipate completing the work in advance of the 29 September 2017 audit deadline.

Other grants and claims work

We undertake the audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started as the deadline is 30 November 2017.

Audit fees

Our fee for the audit was £199,590 excluding VAT (£199,590 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2017. In respect of 2015/16 audit, we received six objections, the work of which we complete will lead to additional fees that will be agreed with both the Chief Finance Officer and PSAA. We estimate that to date the fees incurred are approximately £12,000.

Our work on the certification of Housing Benefits (BEN01) started in August 2017 and has an audit deadline of 30 November 2017. The planned scale fee for this is £22,115 excluding VAT (£21,663 excluding VAT in 2015/16).

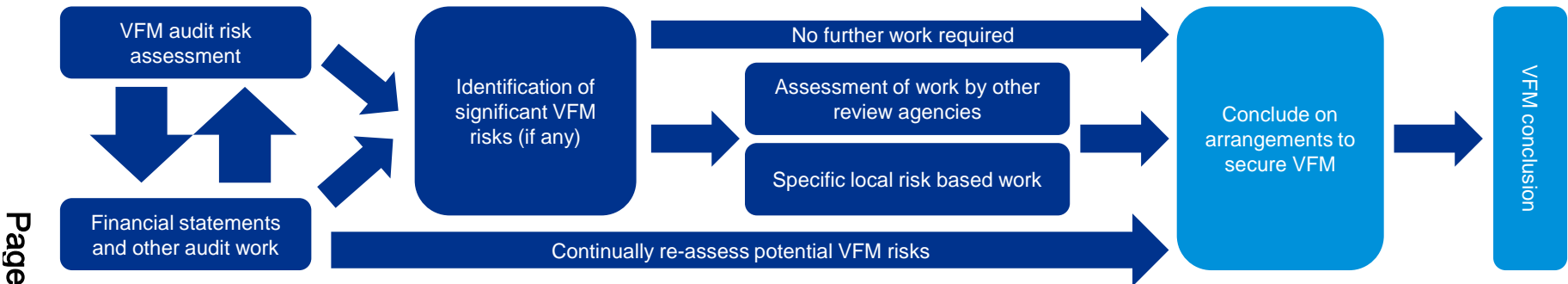
The estimated fees for our audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant is £6,500.

We have been engaged by the Authority since 2010 to assist in managing the Council's VAT claims in respect of the VAT treatment of the Council's sporting services. A fee of £10,000 was raised in August 2017.

Section Three

Value for money conclusion

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks but we identified financial resilience as an area for audit focus where we would keep a watching brief. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Other areas of audit focus

We set out on page 16 the detailed findings against our other areas of audit focus for our VFM work.

Value for money conclusion

| VFM: other area of audit focus | Our audit response and findings |
|--------------------------------|--|
| Financial resilience | <p>Review of financial position and medium term financial plans</p> <p>The Authority's outturn for 2016/17 showed that it achieved budget overall with overspends in Community Wellbeing (£3.2m), Children and Young People (£2.3m) and Resources (£2.1m) being matched with underspends in Regeneration and Environment (£4m) and Central items (£3.6m). The Council also increased its earmarked revenue reserves by £1.3m to £143.7m.</p> <p>The outturn is managed throughout the year with individual Directorates taking ownership of their budgets and managing any cost pressures initially within their Directorates. Variances to outturn are reported to and monitored by central finance and these are reported both to the Corporate Management Team and Cabinet ensuring officers and Members are aware of the financial position.</p> <p>The Authority takes a long term approach to financial planning ensuring that savings required are identified in advance. The Medium Term Financial Plan covering 2017/18 to 2019/20 was updated and reported to Cabinet three times during the 2016/17 year, the final one recommended the 2017/18 budget to full Council. The budget included £14.7m of cost pressures, mainly through increased demand or inflation with in year savings of £19.8m required, all of which had been identified.</p> <p>The Medium Term Financial Plan presented as part of 2017/18 budget approval process had already identified sufficient savings to deliver a balanced budget for 2018/19 based upon current assumptions and identified a potential budget gap of £12m for 2019/20. By planning in advance, this gives the Authority time to clearly assess options for resolving the gap and ensuring the plans to deliver it are robust and deliverable.</p> |

Recommendations raised and followed up

Recommendation raised as a result of our work in the current year are as follows:

| Priority rating for recommendations | | | |
|-------------------------------------|--|----------|---|
| 1 | Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. | 2 | Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. |
| 3 | Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. | | |

| # | Risk | Recommendation | Management Response / Officer / Due Date |
|----------------------|----------|--|---|
| Financial statements | | | |
| 1 Page 93 | 2 | <p>Pension details</p> <p>The initial detailed information provided by the Authority to the actuary relating to members of the pension scheme as part of the Pension Fund triennial valuation contained various errors that meant the valuation results were delayed. The errors were resolved but the Authority should put in place arrangements to ensure that accurate pension data is available to supply to actuaries and individual members when required.</p> | <p>The Authority accepts that there were errors in the initial information provided to the Actuary although that these were subsequently resolved. Following the valuation a review took place between April and May 2017 between the Council's in house pension administration service, the external contractor responsible for the data and the actuary to ensure lessons were learned and appropriate actions agreed. This includes measures to ensure data cleansing on a more regular basis to prevent errors.</p> |

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

| Total number of recommendations | Number of recommendations implemented | Number outstanding (repeated below): |
|---------------------------------|---------------------------------------|--------------------------------------|
| 2 | 2 | 0 |

| # | Risk | Recommendation | Management Response / Officer / Due Date | Status at September 2017 |
|-----------------------------|------|--|---|---|
| Financial statements | | | | |
| Page 94 | | Detailed review | | |
| | 2 | <p>The Authority delivered the draft statement of accounts in advance of the statutory deadline at a time when it was also undergoing a major reorganisation and reduction in staff in the finance function. Our view of some of the adjustments made as a result of our audit and highlighted in Appendix 2 is that they may have been identified through a detailed review of the working papers together with the accounts prior to being presented to the Chief Finance Officer.</p> <p>We recommend that sufficient time is built into the process to allow for a detailed review of working papers with the accounts to be completed prior to presentation to the Chief Finance Officer. This will be increasingly challenging as the deadline for producing unaudited accounts is being brought forwards to 31 May in 2018.</p> | <p>The Authority is reviewing the preparation of its accounts to identify how to bring forward completion of as many elements of the accounts as possible. Much more emphasis will be placed on a month 9 close, and use of estimates where figures do not change materially from month to month. This should prevent work on preparation of the numbers underlying the accounts extending beyond the first week of April. This revised timeline will include time for technical review of the accounts, which should complete by early May, with production of the unaudited accounts by 31 May.</p> | <p>Implemented</p> <p>Time was built into the programme to allow a review of the financial statements which is reflected in the reductions of audit adjustments.</p> <p>With the deadline being brought forwards to 31 May next year, the Authority will need to ensure sufficient review time is maintained.</p> |

Recommendations raised and followed up

| # | Risk | Recommendation | Management Response / Officer / Due Date | Status at September 2017 |
|----------------------|------|--|--|---|
| Financial statements | | | | |
| 2 | 3 | <p>We tested a number of the key recommendations we made in our detailed review of the Finance Service Centre review and found the following:</p> <ul style="list-style-type: none"> a) Self approved journals are not routinely reviewed; and b) Changes to bank account details are reviewed by senior management at irregular intervals rather than say on a monthly basis. Without a set timetable, this increases the risk that the control may not be completed in a timely manner. <p>The Authority should ensure these controls operate on a timely basis.</p> | No specific comment but accepted | <p>Implemented</p> <p>Self reviewed journals are reviewed periodically throughout the year</p> <p>Set process in place for changes to bank account details which are overseen by management and tested by internal audit.</p> |

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you on 28 February 2017.

Materiality for the Authority's accounts was set at £12 million which equates to around 1% of gross expenditure.

Materiality for the Pension Fund was set at £6 million which equates to around 0.75% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the **Audit Committee** any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000 for the Authority and less than £300,000 for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £600,000 for the Authority and £300,000 for the Pension Fund are shown below.

There are no unadjusted audit differences for the Authority or the Pension Fund.

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of non trivial adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

| Authority adjusted audit differences (£'000) | | | | | | |
|--|--|---|--|---------------------|---|--|
| # | Income and expenditure statement | Movement in reserves statement | Assets | Liabilities | Reserves | Comments |
| 1 | Cr Surplus on Revaluation of Property, Plant & Equipment Assets £4,068 Cr Gross expenditure – HRA Community Welfare £30,273 | Dr Adjustments between accounting and funding basis – HRA £30,273 Dr Other comprehensive income and expenditure – Revaluation £4,068 | Dr Property, Plant and Equipment – Council dwellings £30,273 Dr Property, Plant and Equipment – other land and buildings £4,068 | | Cr Revaluation reserves £4,068 Cr Capital Adjustment Account £30,273 | The Authority applied an indexation adjustment to the full valuation undertaken on 1 April 2016 for Council dwellings and PFI properties to ensure that the year end valuation is materially correct. The indexation adjustment is based on HM Land Registry UK Land Price index for Brent. At the time of the accounts preparation, the Authority made an appropriate estimate of a 2.31% fall in value based on the data available at the time. However, changes in the underlying Land Registry data as additional sales have been registered since the estimate was made, resulted in the index showing a 2.47% increase at the time of the audit. Given this information, the Authority revised their estimate to reflect the latest data available. This was not, therefore, an error in the original preparation but an update as new information had become available. |
| 2 | | | Cr Debtors £4,199 | Dr Creditors £4,199 | | Output VAT included in creditors rather than netted off Input VAT. |
| 3 | | Dr Adjustments between accounting and funding basis General Fund £730 Cr Adjustments between accounting and funding basis - Capital grants unapplied £730 | | | Dr Earmarked reserves £730 Cr Capital grants unapplied £730 | Reallocation of capital funding |

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Brent and London Borough of Brent Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and London Borough of Brent and London Borough of Brent Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise overleaf the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Audit independence

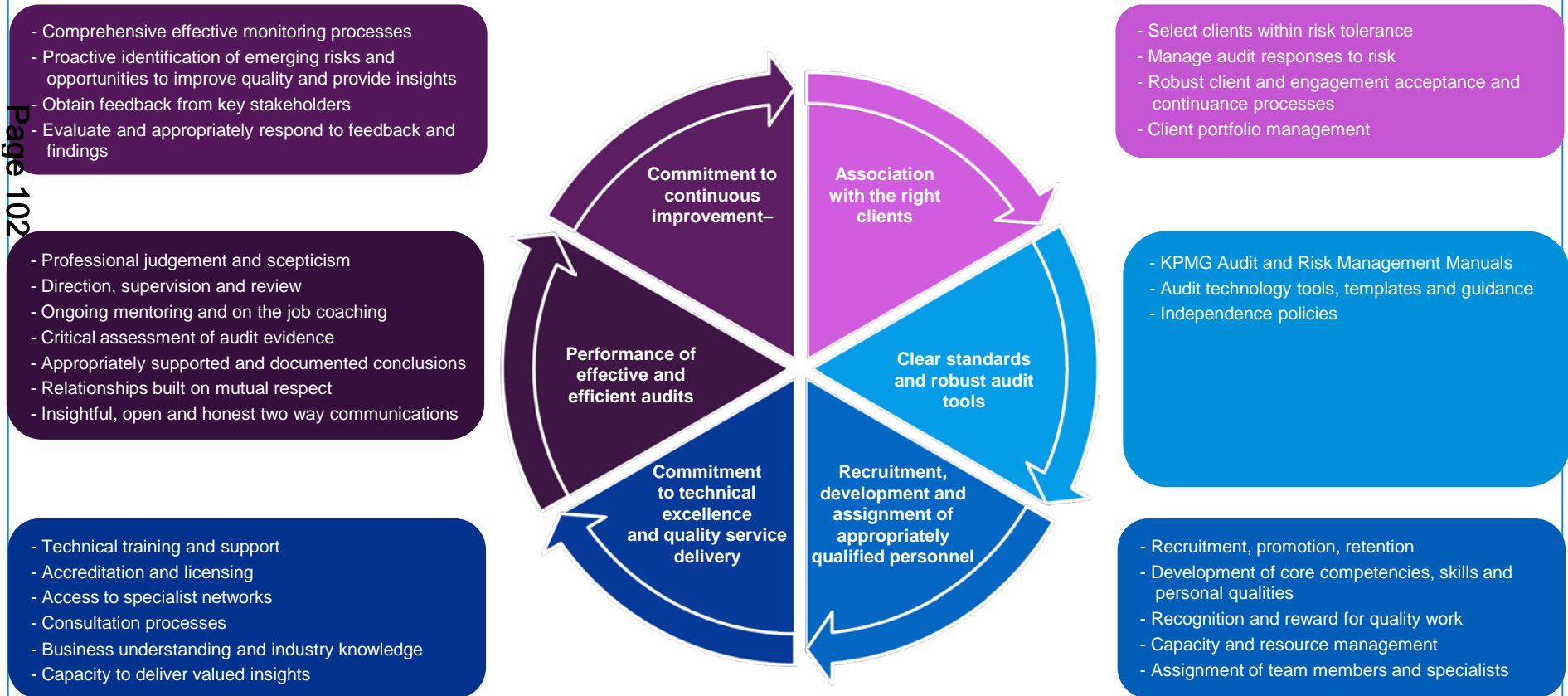
| Description of non audit services | 2016-17 fees | Potential threat to auditor independence | Associated safeguards in place |
|--|------------------------------|---|--|
| Advising and managing the Council's VAT claims in respect of the VAT treatment of the Council's sporting services. | £10,000 excluding VAT | There are six potential threats: Self-review; Management; Advocacy; Intimidation; Familiarity; Self-interest; and Assuming management responsibility. | <p>In determining that the firm can provide this non-audit service we have exercised professional judgement to evaluate the threats to independence, ensured that applied safeguards are sufficient to reduce threats to a level where it is probable that an objective, reasonable and informed third party would conclude that integrity is not compromised.</p> <p>In summary, the scope of the services is agreed under a separate terms of engagement from the financial statements audit.</p> <ul style="list-style-type: none"> • The fees for the services are not material to the Authority or KPMG. • The service was delivered by a team separate to the audit team. • The service does not have an impact on the financial statements and did not involve reviewing any controls at the Authority. • This fee is for VAT advisory services in respect of the Authority's claim and protective appeal which will be held behind the lead case. We do not represent the Authority at Tribunals or with HMRC and all correspondence we send to HMRC is agreed in advance. |
| Teachers' Pension return and Pooling of Housing Capital receipts | £6,500 excluding VAT | No threats to auditor independence arises. | This is a service typically performed by external auditors, no specific safeguards are necessary. |
| Total fees | £16,500 excluding VAT | | |
| Total fees as a % of the external audit fees | 8.3% | | |

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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Andrew Sayers
KPMG LLP
15 Canada Square
London
E14 5GL

20 September 2017

Dear Andrew

This representation letter is provided in connection with your audit of the financial statements of London Borough of Brent ("the Authority"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority's and the Group's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Authority's Expenditure and Funding Analysis, Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

- i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority's and the Group's expenditure and income for the year then ended;
- ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year;
- iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or

- others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

10. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

12. The Authority confirms there have been no variations to the Private Finance Initiative (PFI) schemes.

This letter was tabled and agreed at the meeting of the Audit Committee on 20 September 2017.

Yours sincerely,

Conrad Hall
Chief Financial Officer

Appendix to the Authority Representation Letter of London Borough of Brent: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).

- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.


A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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|  <p>Brent</p> | <p>Audit Advisory Committee 20 September 2017</p> <p>Report from the Chief Finance Officer</p> |
| <p>For information</p> | <p>Wards Affected: All</p> |
| <p>2017/18 Mid-Year Treasury Report</p> | |

1. SUMMARY

- 1.1 This report updates Members on recent treasury activity.

2. RECOMMENDATION

- 2.1 The Committee is asked to note the 2017/18 mid-year Treasury report, which is to be forwarded to the Cabinet and Council.

3. DETAIL

BACKGROUND

- 3.1 The Council's Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 3.2 The Code also recommends that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
- 3.3 Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 3.4 In addition to reporting on risk management, the Code requires the Authority to report on any financial instruments entered into to manage treasury risks.

ECONOMIC BACKGROUND

- 3.5 Growth in the UK economy has slowed in 2017 with both the US and Eurozone now growing at around twice that of the UK. The most recent estimate for UK GDP growth is 0.3% for Q2 with the Eurozone and US running at 0.6%. Arlingclose have advised that the outlook for the UK economy remains challenging to predict following the vote to leave the European Union. Mark Carney, Bank of England governor, after the decision to keep interest rates at 0.25%, referred to uncertainty around the Brexit process “*weighing on the decisions of businesses*”.
- 3.6 One of the key drivers of the UK economy, consumer spending, has weakened as the effects of inflation out pacing wages starts to take hold. The weakness of the pound has been source of inflationary pressure however our treasury advisors noted that it is unlikely to result in the tightening of monetary policy by the Bank of England with a view to minimise the effects of Brexit on economic activity.
- 3.7 Gilt yields have fluctuated in response to domestic and international events in the first half of the year. The movement in rates at which local authorities can borrow from the Public Works Loans Board (PWLB) on maturity loans is shown in the table below:

PWLB Rates

| Period | March 2017 | August 2017 |
|---------|------------|-------------|
| 1 year | 1.0% | 1.1% |
| 5 year | 1.5% | 1.4% |
| 10 year | 2.1% | 2.1% |

- 3.8 The interest rate the Council receives on money market funds has fallen since the previous report and 12 month maturities with local authorities have fallen from 0.6% to 0.4%.

DEBT MANAGEMENT

- 3.9 The Authority continues to qualify for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate). This is reviewed on an annual basis and has been confirmed as applying until 31 October 2017.
- 3.10 Alternative sources of long term funding to long-dated PWLB borrowing are available, but the Council will continue to adopt a cautious and considered approach to funding from the capital markets. The affordability, simplicity and ease of dealing with the PWLB represents a strong advantage but the Council, due to its prudent policies and strong balance sheet, is in a position to consider alternatives, and will start to do so in order to finance the investment strategy. However, no new long term loans have needed to be raised so far this year as can be seen in the table below:

| | Balance on 01/04/2017 £m | Debt repaid* £m | New Borrowing £m | Balance on 31/08/2017 £m |
|----------------------------|--------------------------------|-----------------------|---------------------|--------------------------------|
| Short Term Borrowing | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Borrowing | 415.0 | 1.6 | 0.0 | 413.4 |
| TOTAL BORROWING | 415.0 | 1.6 | 0.0 | 413.4 |
| Average Rate % | 4.79 | 2.57 | | 4.81 |

* £28.5m of the PWLB loans are referred to as EIP, whereby the Councils pays down the loans in half-yearly equal installments over the lifetime of the loan. The marginal increase in the average interest rate can be attributed to the Council paying back its EIP loans. This is because the EIP loans have a much lower interest average interest rate of 2.57% compared with the rest of the debt, which is 4.98%

- 3.11 Affordability remains an important influence on the Council's borrowing strategy. Moreover, any borrowing undertaken ahead of need would need to be invested in the money markets at rates of interest significantly lower than the cost of borrowing and involve credit risk. If interest rates seemed likely to rise in the short-term then this approach might need to be reviewed.
- 3.12 The use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing external debt and temporary investments. However this position will not be sustainable over the medium term and the Council will need to give careful consideration to its future capital programme and how this is financed. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor, Arlingclose.
- 3.13 The persistence of low interest rates means that it would be uneconomic to reschedule debt, because early retirement of the loan would incur a heavy penalty, to compensate the PWLB for having to lend the money on at lower rates. For example, the Council's most expensive loan is £3.05m at a rate of

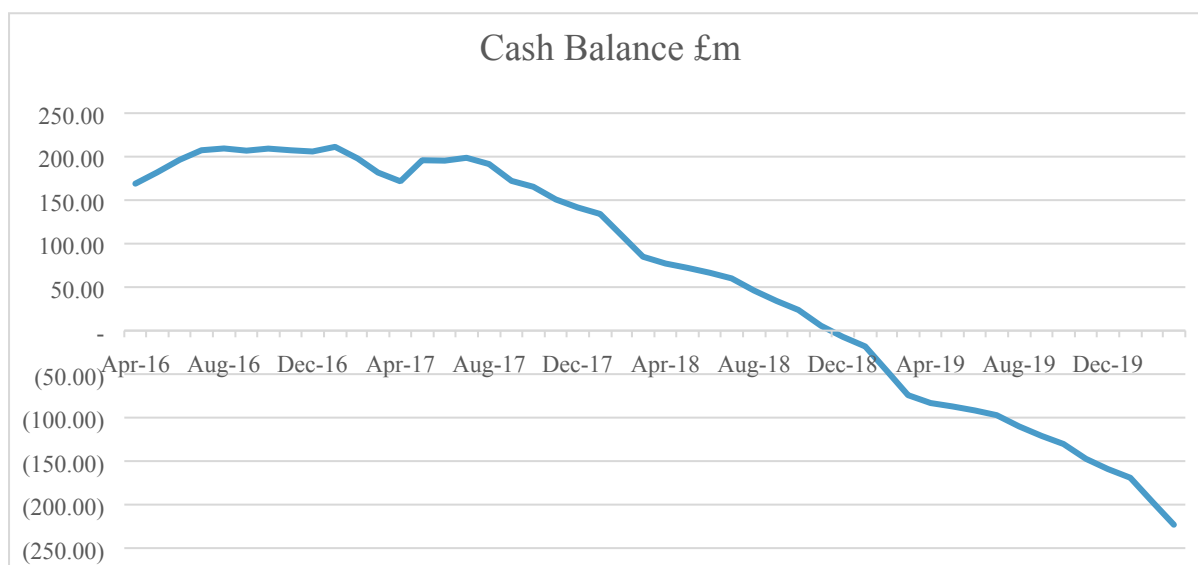
8.875%, to repay it would cost £0.935m, a 30% premium on the value of the loan before the cost of re-financing. In short, the cost of re-financing our loans under the Government's approach means is not economical. This analysis might change if interest rates returned to historically normal levels.

INVESTMENT ACTIVITY

- 3.14 The Council gives priority to security and liquidity and aims to achieve a yield commensurate with these principles.

| | Balance on 01/04/2017 £m | Investments Made £m | Investments Repaid £m | Balance on 31/08/2017 £m |
|---------------------------|--------------------------------|---------------------------|-----------------------------|--------------------------------|
| Short Term Investments | 167.3 | 499.9 | 492.1 | 175.1 |

- 3.15 There was a £7m upward movement in short-term investments. This is due to a natural pattern of growth in cash in the early part of the year as grant income is frontloaded. However, it is far lower than the £42m upward movement last year, as already purchases of properties (NAIL, PRS and HRA) is having a significant impact on our cashflows with over £25m spent to date. The remainder is made up of higher spend across the Capital Programme. £199m was the average amount of cash held in 2016/17.
- 3.16 The council has undertaken a preliminary analysis of its cash flows, examining the pace at which we are reducing our cash reserves, The analysis was based on forecast capital spend, incoming resources and seasonal variations. This resulted in a prediction that the council will need to borrow towards the end of 2018, limiting our ability to use financial products that generate higher financial returns, as they would require longer time horizons. The council is reviewing its borrowing options which may include short term loans, PWLB borrowing or market loans. The council will also consider the advice of our Treasury management advisors, Arlingclose prior to any borrowing decision being made.



- 3.17 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18. New investments were made with the following classes of institutions:

A- or above rated banks;
 AAA rated Money Market Funds;
 Other Local Authorities;

- 3.18 Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, Standard & Poor's and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms; potential support from a well-resourced parent institution; share price. There were two foreign banks on our Lending List, both Swedish (and, therefore, outside the Eurozone), conservatively run and with good ratings and strong financial figures.
- 3.19 All investments in banks and building societies are now undertaken by means of marketable instruments (Certificates of Deposit, CDs). This adds a measure of additional liquidity without sacrificing return, given our maturity limits.

BUDGETED INCOME AND OUTTURN

- 3.20 The Council's external interest budget for the year is £23.3m, and for investment income is £1.4m. The Council is unlikely to achieve the income figure, but this will be compensated for by lower borrowing costs than budgeted. The average cash balances, representing the Council's reserves and working balances, were £191m during the period to 31 August 2017.
- 3.21 The UK Bank Rate reduced to 0.25% on 4 August 2016 and has not increased since then. Short-term money market rates have remained at very low levels and do not, at the moment, appear likely to rise.

ICELANDIC BANK INVESTMENT UPDATE

- 3.22 £0.2m of the original £10m deposit remains outstanding. It is expected that a further distribution will be made but this depends on the result of litigation currently under way regarding a property investment.

LOBOs (Lender Option Borrower Options)

- 3.23 The Council has a market loan portfolio comprising a total value of £95.5m. Of this, £80.5m are LOBOs with the remaining £15m made up of fixed rate loans. As noted in the previous report, Arlingclose have advised us that some of our other lenders may consider giving up these rights. There was no further changes to the LOBO portfolio since the last update.

COMPLIANCE

- 3.24 Officers confirm that they have complied with its Prudential Indicators for 2017/18, which were set in February 2017 as part of the Council's Treasury Management Strategy Statement (TMSS). Details can be found in Appendix 1.
- 3.25 The Committee is asked to note that there was a minor breach of the limits defined in the Treasury Management Strategy. An extra £0.1m was accidentally invested in Blackrock Money Market Fund to take the balance above £10m. The error was promptly discovered and £0.1m was withdrawn from the fund the following day. An investigation into this breach concluded that an error in entry to the Logotech Treasury Management system was the cause. Training has been provided to officers involved in the treasury management process to ensure a recurrence of this issue does not occur again.

SUMMARY

- 3.26 In compliance with the requirements of the CIPFA Code of Practice, this report provides Members with a summary report of the treasury management activity during the first half of 2017/18. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4. FINANCIAL IMPLICATIONS

These are covered in the report.

5 DIVERSITY IMPLICATIONS

None.

6. STAFFING IMPLICATIONS

None.

7 LEGAL IMPLICATIONS

There are no direct legal implications.

8 BACKGROUND

Treasury Management Strategy – Report to Full Council as part of the Budget Report – February 2017.

Contact Officer

Gareth Robinson,
Head of Finance - Capital and Treasury
Finance

Conrad HALL
Chief Finance Officer

Appendix 1

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2017/18 to 2019/20 are shown in the table below (excluding Private Finance Initiative schemes):

| | 31/03/2017 Draft* £m | 31/03/2018 Estimate £m | 31/03/2019 Estimate £m | 31/03/2020 Estimate £m |
|-----|----------------------------|------------------------------|------------------------------|------------------------------|
| CFR | 582 | 620 | 750 | 900 |

*The accounts have not been signed off as of yet, therefore the Draft number remains.

Usable Reserves

Estimates of the Council's level of Usable Reserves for 2017/18 to 2019/20 are as follows:

| | 31/03/2017 Draft* £m | 31/03/2018 Estimate £m | 31/03/2019 Estimate £m | 31/03/2020 Estimate £m |
|-----------------|----------------------------|------------------------------|------------------------------|------------------------------|
| Usable Reserves | 116 | 90 | 75 | 60 |

Prudential Indicator Compliance

Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Authorised Borrowing Limit. This is a statutory limit which should not be breached. The Council's Authorised Borrowing Limit was set at £900m for 2017/18. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2017/18 was set at £800m. The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary so far this year; borrowing at its peak was £415m.

Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

| | Limits for 2017/18 | Maximum during 2017/18 |
|--|--------------------|------------------------|
| Upper Limit for Fixed Rate Exposure | 100% | 100% |
| Upper Limit for Variable Rate Exposure | 40% | 0% |

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

| Maturity Structure of Fixed Rate Borrowing | Upper Limit % | Lower Limit % | Actual Fixed Rate Borrowing as at 31/08/17 £m | % Fixed Rate Borrowing as at 31/08/17 | Compliance with Set Limits? |
|--|---------------|---------------|---|---------------------------------------|-----------------------------|
| Under 12 months | 40 | 0 | 29 | 7 | Yes |
| 12 months and within 24 months | 20 | 0 | 14 | 3 | Yes |
| 24 months and within 5 years | 20 | 0 | 65 | 16 | Yes |
| 5 years and within 10 years | 60 | 0 | 5 | 1 | Yes |
| 10 years and above | 100 | 0 | 301 | 73 | Yes |

Net Debt and the CFR

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and next two financial years.

The Authority had no difficulty meeting this requirement so far in 2017/18, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

The limit for 2017/18 was set at £40m.

The Council's practice since the onset of the credit crunch in 2007 has generally been to keep investment maturities to a maximum of 12 months. At 31 August, the last maturity date in the deposits portfolio was 20 August, 2018.

Credit Risk

This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk, with advice and support from our advisers, Arlingclose:

- Published credit ratings of the financial institution and its sovereign;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum.


The Council can confirm that all investments were made in line with a minimum long term credit rating of A- or equivalent, as set in the 2017/18 TMSS.

HRA Limit on Indebtedness

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

| HRA Limit on Indebtedness | 31/03/2017 Draft* £m | 31/03/2018 Estimate £m | 31/03/2019 Estimate £m | 31/03/2020 Estimate £m |
|-------------------------------------|----------------------|------------------------|------------------------|------------------------|
| HRA CFR | 139 | 157 | 177 | 190 |
| HRA Debt Cap (as prescribed by CLG) | 199 | 199 | 199 | 199 |
| Difference | 60 | 42 | 22 | 9 |

*The accounts have not been signed off as of yet, therefore the Draft number remains.

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|---|--|
|  Brent | Audit Advisory Committee 20 September 2017 Report of the Chief Finance Officer |
| For Information | Wards affected: ALL |
| Public Sector Audit Appointments Consultation on Auditor Appointment from 2018/19 | |

1. INTRODUCTION

- 1.1. Council decided in January 2017 to accept the invitation of Public Sector Audit Appointments Ltd (PSAA) to opt into a sector led option for the appointment of auditors for five years from 2018/19. Following this decision, and similar ones by 483 other authorities, PSAA have run a procurement and awarded approximately £36.5m of work to seven large accountancy firms.
- 1.2. PSAA have produced provisional allocations of auditors to authorities, and are consulting on these allocations. Authorities may confirm satisfaction with the proposed arrangements, or object on a number of grounds. This report outlines the proposal for Brent Council and the Chief Finance Officer's planned response to the consultation.

2. RECOMMENDATIONS

- 2.1. The Audit Advisory Committee notes and endorses the Chief Finance Officer's positive response to the PSAA Consultation.

3. BACKGROUND

3.1. The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission. The Act established transitional arrangements for the management and supervision of existing contracts for external audit (eventually extended to 2017/18), and detailed future arrangements (for 2018/19 onwards) for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. These arrangements were outlined in a report to Audit Committee in March 2016, and allow the Council to procure and appoint auditors through either:

- setting up its own independent auditor panel,
- with other authorities (or authority) to set up a joint independent auditor panel, or to
- opt into a sector-led arrangement, which would allow a body, designated 'appointing person' to complete the process for a large number of authorities.

The committee noted that the preferred option was the third, and that it was being progressed by the LGA.

3.2. In July 2016, the Secretary of State approved the sector-led arrangement, and designated PSAA an appointing person. Formal invitations were issued, and the Council opted into the arrangement following decisions at Audit Committee and Council in January 2017.

3.3. Authorities were required to opt-in by March 2017 to allow the procurement process to be carried out through the summer. The following amounts of work were awarded to seven firms:

- c.£14.6m per audit year to Grant Thornton LLP;
- c. £10.9m per audit year to EY LLP;
- c.£6.6m per audit year to Mazars LLP;
- c.£2.2m per audit year to BDO LLP;
- c.£2.2m per audit year to Deloitte LLP; and
- no guaranteed value to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

- 3.4. The next steps are for PSAA to allocate auditors to authorities, to consult on those allocations, and then to repeat the cycle following the first consultation. The appointments will then be finalised in December, meeting the statutory deadline. PSAA will then establish final costs and propose, consult on, and publish audit fees for 2018/19 by 31 March 2018.
- 3.5. The first round of the allocation process has been completed, and is based on the following six principles:
- ensuring auditor independence;
 - meeting our contractual commitments;
 - accommodating joint/shared working arrangements where possible;
 - ensuring a blend of authority types for each audit firm;
 - taking account of a firm's principal locations; and
 - providing continuity of audit firm, if possible.
- 3.6. The provisional allocation for Brent Council is Grant Thornton (UK) LLP, for whom PSAA have provided the following precis:

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in local authorities. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

- 3.7. The potential grounds for objection to the proposed appointment are:
- there is an independence issue;
 - there are formal and relevant joint working arrangements; or
 - there is another valid reason, for example a body can demonstrate a history of inadequate service from a particular firm.

None of these grounds are known to exist for Brent Council, and it is therefore proposed to confirm acceptance of the allocation.

4. FINANCIAL IMPLICATIONS

- 4.1. In a similar way to the current system, PSAA will pool the total costs of the scheme and their activities overseeing the auditors and managing the contracts, and charge authorities a scale fee which has regard to the size of the organisation, its complexity, and the level of audit risk involved. The particular auditor appointed will not have any impact on the fees charged, so there are no financial implications arising as a result of the report.
- 4.2. Further information on proposed scale fees will be provided, via a consultation, by the end of 2017/18 and will be incorporated into the Council's budget setting and monitoring processes. The initial indication from PSAA, and based on the procurement outcome is that a reduction in fees of approximately 18% should be possible, this would mean approximately £42k based on the 2016/17 fee.


5. LEGAL IMPLICATIONS

- 5.1. The PSAA arrangement described in this report means that the Council's legal duty to appoint an auditor for 2018/19 by 31 December 2017 will be fulfilled.

CONTACT OFFICER

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conrad.hall@brent.gov.uk

Conrad HALL
Chief Finance Officer

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|  <p>Brent</p> | <p>Audit Advisory Committee</p> <p>20 September 2017</p> <p>Report from Strategic Director Resources</p> |
| For Information | Wards Affected: All |
| Capital Programme Update | |

1.0 Summary

- 1.1 This update was requested by the Audit Advisory Committee in June and reviews the delivery of the Capital Programme and the changes that have been made to improve performance, forecasting and governance.

2.0 Recommendations

- 1.2 That the Committee notes the report.

3.0 Monitoring

Outturn

| 2016/17 Boards | Budget £m | Outturn £m | Variance £m |
|--------------------------|--------------|---------------|----------------|
| Corporate Landlord | 2.6 | 2.5 | (0.1) |
| Estates Regeneration | 3.7 | 1.2 | (2.5) |
| Housing Investment Board | 129.5 | 67.1 | (62.4) |
| Schools Programme | 47.4 | 14.4 | (33.0) |
| South Kilburn Programme | 17.3 | 5.8 | (11.5) |
| Transport & Highways | 22.7 | 9.8 | (12.9) |
| Grand Total | 223.2 | 100.8 | (122.4) |

- 1.1 The End of Year position was £101m, which was an underspend of £122m. All Boards were significantly below budget bar Corporate Landlord. This was driven by unrealistic profiling in Housing and South Kilburn, a 12 (now 18) month delay in the Street-lighting contract and contractual issues with the main contractor in the schools programme. 2016/17 spend was broadly consistent with 2015/16.

- 1.2 The Council has reviewed the profiling for future years, challenging project managers. While the budget for 2017/18 is broadly consistent with 2016/17, the increase in direct property purchases (£75m more than 2016/17) makes this far more likely to be achieved. However, there are still risks detailed below that have been identified early on and need to be recognised.

2017/18 Forecast

| | Budget | Revised Budget | Forecast Outturn | Actual Spend | Variance |
|-------------------------------|---------------|-----------------------|-------------------------|---------------------|-----------------|
| | £m | £m | £m | | £m |
| Corporate Landlord | 2.0 | 4.0 | 4.0 | 0.2 | (0.0) |
| Housing Care Investment Board | 147.1 | 152.9 | 142.0 | 29.3* | (10.9) |
| Public Realm Board | 17.5 | 22.7 | 16.4 | 1.8 | (6.3) |
| Regeneration Board | 8.9 | 9.9 | 8.1 | 4.9 | (1.8) |
| Schools Programme Board | 30.6 | 30.9 | 31.0 | 3.9 | 0.1 |
| South Kilburn | 11.5 | 11.5 | 11.5 | 4.1 | 0.0 |
| Grand Total | 217.6 | 231.9 | 213.0 | 44.2 | (18.9) |

* Does not include BHP spend for July. New process is being put in place to ensure it is complete by month-end.

Capital - Overall

- 1.3 The Capital programme as a whole has a 2017/18 budget of £231.9m, £217.6m of which was approved at full Council in March, and two-thirds of which relates to Housing. The Forecast Outturn is currently £213m or 92% of target. It is forecast to underspend by £18.9m.
- 1.4 New projects or increased project budgets worth £14.3m have been approved in-year including the Digital Strategy (£2.1m), CCTV (£2.3m) and new grant allocations for TfL (£2.9m). Disabled Facilities Grants (£5.7m) have also added to the overall budget. These projects make up the majority of the increase.
- 1.5 Spend-to-date at £44m in 4 months in 2017/18 is already the same as spend over 9 months in 2016/17 (budget of £223m and outturn of £101m), therefore it is clear that the programme is on track for far higher spend in 2017/18 (forecast of £213m and budget of £232m) than 2016/17.
- 1.6 While 2016/17 was taken up with the development and planning of its Investment strategy, 2017/8 will be focused on its delivery.
- 1.7 The Investment strategy linking capital spend to corporate objectives around affordable housing and social care accommodation was signed off in April 2016. A wholly owned investment vehicle – I4B Holdings Ltd – was established late in 2016, which was another key milestone in turning the investment strategy into reality. The council is involved in negotiations over joint venture

arrangements in Wembley and South Kilburn and it is actively exploring other opportunities.

Capital - Housing Care Investment Board

- 1.8 Overall, the largest Board expects to deliver £142m out of £153m with PRS (I4B Holdings Ltd), HRA Acquisitions and NAIL refurbishment schemes on track to deliver to budget. Originally, the purchasing cycle took up-to 6 months to purchase properties. However, improved processes have reduced this to 4 months with a target of 3 months (with the exception of existing tenanted properties).
- 1.9 The first two tranches of Private Rented Sector (PRS) spend, totalling £50m, have been approved towards purchasing 150 properties and it is anticipated that this should be delivered by the end of Q3 2017. The overall agreement in principle is £100m for 300 properties but, by splitting this into tranches, Cabinet is able to review progress and performance. The next planned request for £50m is expected to go to September Cabinet.
- 1.10 Over £100m has already been approved in relation to NAIL, but these are approved on a scheme by scheme basis. These 351 units over the next three years (out of a planned 415 units) should contribute to the Council's existing savings targets (£6.1m out of £7.2m required savings over the next three years, with more to come by this and other means).
- 1.11 Development schemes are currently predicted to underspend by £11m. Infill schemes tend to be challenging due to their small sizes and complexity and are expected to deliver £12m out of £23m. There was a loss of units due to the scale of some schemes being reduced through the planning process, and there were also delays through planning processes, leading to the construction stage now expected to straddle 2017/18 and 2018/19. The Infill programme is now being reviewed to see by how much the budget needs to be reduced. In-house Property-delivered schemes (Church End, Knowles House, and London Road) are forecast to only deliver £6m out of £21m due to over-programming.
- 1.12 It is expected that some of this underspend will be counter-balanced by PRS performing £14m above the current in year budget of £34m (this budget may be increased by some of the £50m mentioned above). If this was not to materialise, this underspend would have an impact on the overall performance of the Capital Programme.

Capital - Other Boards

- 1.13 Corporate Landlord (IT, Property, Energy) expects to make the final payment on the Civic Centre (circa. £2m in 2017/18) and the approval of the digital strategy has increased the overall budget. The Corporate Landlord Board will be reviewing all projects in September.
- 1.14 Schools Programme Board spend primarily relates to three of the primary school builds (Uxendon, Byron Court and Stonebridge). The slight increase (£0.3m) in the budget is due to Gordon Brown Outdoor Education Centre

requesting additional budget to deliver the project (and finding internal sources of funding to do so).

- 1.15 Public Realm board consists of Highways, Parks, Sports and Street Lighting. There has been an extended delay on the Street lighting project. Delivery was originally expected to be completed within 2016/17 but due to procurement delays, it will only start on site in October 2017. The contracted price is expected to cost £1.5m less than the budget, generating an in-year underspend of £3.9m (£2.4m of which is related to delays). CCTV is also predicting a £0.1m spend out of £2.3m in 2017/18 but this may be overly conservative. A few months delay in public realm can lead to significant impact as the spend tends to be back-loaded. Capital Programme Board will be examining this further.
- 1.16 Regeneration spend relates primarily to Housing Zones. The purchase of Ujima House (£4.9m) has already taken place. The Tricycle Theatre project was approved post-budget setting and is expected to complete in 2017/18 (£1m), as they are due to open in April 2018.
- 1.17 South Kilburn have not changed their forecast range of £10.4m to £13.6m, as they have spent £4.1m to date. The forecast is predicated on the middle of the range (budget) of £11.5m, but there is clearly a range of possible outcomes, in part because the outturn depends on decisions made by leaseholders to accept Council offers so it is challenging to get a more accurate forecast.

2.0 *Improvements*

Establishing Good Governance

- 2.1 All of the sub-programme boards have either agreed or proposed terms of reference and are meeting regularly. The Corporate Landlord board only meets twice a year due to its relatively small portfolio.
- 2.2 While sponsorship of some of the programmes has changed, efforts have been made to ensure that roles and responsibilities are clearly understood.
- 2.3 Sub-boards now meet before the main board so that forecasts can be reviewed and approved before Capital Programme Board. It also makes for clear lines of accountability so that just as programme and project managers can be challenged at sub-Board, Chairs will be accountable for their forecasts and performance at the main Board.

Budgeting & Forecasting

- 2.4 Forecasts overall are more realistic due to the work in January, however, it is clear that further improvements could be made. Self-delivery of housing projects both via BHP and the Property function and the Street-lighting projects are areas where the original forecasts still appear to have been overly optimistic.

- 2.5 A formal budget challenge session will begin in late Autumn to ensure that profiles are realistic. A budget/forecasting tool will be created to support managers with multi-year forecasting.

Improvement Workshop & Programme Managers Forum

- 2.6 A working group was formed to identify a practical set of improvements to strengthen the programme which are now being progressed. They comprise the establishment of a capital programme managers forum, to promote sharing of best practice and learning across capital projects and programmes, and to facilitate more collaborative working and early engagement with strategic support services including Procurement, Planning, Finance and Legal.
- 2.7 The Capital Portfolio Office is also producing a set of quick reference guides and top tips on key areas for project and programmes managers, which will be promoted at the programme managers' forum and published on the intranet.

Change Control Process

- 2.8 A simple change control note has been produced to help project and programme managers. However, it is important that budget profiles are set at the creation of the project and may only be changed at full Council. This is so that members can hold officers to account for project delivery.
- 2.9 All virements (budget movements between project headings) need to be compliant with the Constitution and the budgets approved at full Council or by Cabinet for new schemes.

3.0 Finance Implications

- 3.1 There are no direct financial implications beyond the advantages accruing from running an efficiently designed capital programme.

4.0 Legal Implications

- 4.1 The Scheme of Transfers and Virements in Part 6 of the Council's Constitution sets out the powers of officers and the Cabinet to make transfers and virements within the Council's Budget. This includes the Council's Capital Programme which is funded by a combination of capital receipts, grants and other direct external contributions and borrowing.
- 4.2 Any transfer or virement under the Council's Scheme of Transfers and Virements must not conflict with the Council's Policy Framework or anything specifically agreed by Full Council as part of the budget setting process. Otherwise, such a transfer or virement needs to be agreed by Full Council.

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ALTHEA LODERICK

Strategic Director Resources

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|  <p>Brent</p> | <p>Audit Advisory Committee 20 September 2017</p> <p>Report from the Chief Finance Officer</p> |
| For Information | Wards Affected: ALL |
| <p>Internal Audit and Counter Fraud Progress Report for the period 1 April – 31 August 2017</p> | |

1. Summary

- 1.1 This report provides an update on the progress against the internal audit plan for the period 1 April 2016 to 31 August 2017. The appendix to the report also summarises those audits from the 2016/17 plan which have been finalised since the last meeting of the Committee. The report also provides a summary of counter fraud work for the first quarter of 2017/18.

2. Recommendations

- 2.1. That the Audit Advisory Committee notes the progress made in delivering the 2017/18 Internal Audit Plan and the counter fraud work in the period of the report.

3. Detail

- 3.1. The Internal Audit Plan for 2017/18 initially comprised 62 audits.
- Much of the work of the first quarter of the year focused on the completion of the 2016/17 plan. A summary of reports finalised during the first quarter relating to last year's plan is set out in Appendix 1. The 2016/17 plan is now complete with the exception of finalising one school report.
- 3.2. The key points to note with regards to progress for the current year are:
- Ten reports from the 2016/17 audit plan have been finalised since the last meeting of the Committee. Four had "reasonable" assurance opinions; three had "limited" assurance opinions and the remaining three were 'non assurance' reviews. Details are included in Appendix 1 of this report.
 - There were sixty two audit projects included within the agreed 2017/18 plan (excluding follow up and advisory work). Work has commenced on eleven of these.
 - The annual audit plan is necessarily a flexible document to meet the changing risks, issues and management requests that occur in year. Since

the plan was approved we have, where appropriate, made amendments to the plan including: amalgamating certain reviews, ceasing work at scoping stage when the control environment became more fully understood, and removing reviews which were deemed low risk. Additionally, some audits have been removed or deferred at the request of management - either as a result of planned changes to services or because of other external consultancy work being undertaken during the current financial year. Table 2 below has the list of audits removed from the plan and the reasons for doing so.

- Seven audits have been added to the plan. Three are audits which were deferred from 2016/17 and the remaining four have been added as replacements for audits removed from the original plan at the request of management. See table 3 below for the list of audits added to the plan.
- Four audits have been delayed at the request of management. Details of the audits which have been delayed are set out in Table 4 below.
- Three audits from the 2017/18 plan have been completed to draft or final stage. Only one of the audits has an assurance opinion associated with it (limited assurance in this case). The remaining two relate to consultancy work and a certification of accounts which do not have an assurance ratings attached.

Table 1 – Summary of Audits Completed Since last audit report





| Total Number of Audits Completed | Substantial  | Reasonable  | Limited  | None  | Non Assurance | Total I |
|----------------------------------|--|---|--|---|---------------|-----------|
| Finals | - | 4 | 3 | - | 5 | 12 |
| Draft | - | - | 1 | - | - | 1 |
| Total | - | 4 | 4 | - | 5 | 13 |

Table 2 – Audits Removed from the Agreed Plan

| Audit | Reason |
|-----------------------------------|---|
| Grants To Voluntary Organisations | Audit in this area was carried out in 2016/17. A 'reasonable assurance' rating was given. |
| Complaints/FOIs/Members Enquiries | Considered to be low risk and managed corporately. |
| Employee Loans | To be carried out as a pro-active piece of work by the Investigations team |
| Access Management | To be combined with IT Security |
| IT Performance Management | Removed on the basis of previous coverage in 2016/17 as part of IT |

| | |
|--|--|
| | Governance & Third Party Management audit. |
| IT Governance | Covered as part of GDPR Consultancy |
| Technological Development of systems and processes to support delivery of services | Removed at the request of management |
| Early Education Entitlement | Nursery Education Grants for two year olds audited in 2016/17. Reasonable Assurance rating. |
| Income Collection & Debt Recovery | To be carried out as a corporate audit in 2018/19 |
| Social Media | Discussions with management at the scoping stage identified good control picture |
| Quality of Care (ASC) | Replaced with an audit of Adults with Learning Disabilities |
| Contract Management – Sexual Health Care | Deferred to 2018/19 at the request of management |
| Business Continuity (BHP) | BHP to transfer back to Council in October 2017. BCP will be reviewed as part of a planned Change Management audit. |
| Safeguarding(BHP) | BHP to transfer back to Council in October 2017. Safeguarding will be in accordance with Council's arrangements and audited accordingly. |
| Information Governance (non IT) (BHP) | BHP to transfer back to Council in October 2017. Will be covered by Council's procedures and audited accordingly. |
| Information Management (IT) (BHP) | BHP to transfer back to Council in October 2017. Will be covered by Council's procedures and audited accordingly. |
| Leave Absence and Sickness Management | BHP staff to be transferred back to Council in October 2017. Will be required to comply with Council procedures in this area. |
| BHP – AP/AR/GL/CM | Not removed – will covered as part of an expanded scope in the Council's CAM audits |
| Kypera (IT) | To be replaced by another review at the request of management |
| BHP Assurance Mapping | BHP will be transferring back to the Council from October 2017. This specific work is no longer required however the annual audit planning |

| | |
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| | process for 2018/19 will seek to cover the key elements of this. |
|--|--|

Table 3 – Projects Added to the Plan

| Audit | Reason |
|---|--|
| Treasury Management | Transferred from 2016/17 plan |
| Leasehold Management & Service Charges | Transferred from 2016/17 plan |
| Integrated Asset Management (BHP) – Follow Up | Transferred from 2016/17 plan |
| Payroll | Full audit included in consultation with Management. |
| Adults with Learning Disabilities in Residential Care | Replacement for Quality of Care audit in original plan |
| Home Care Contracts | Advisory and consultancy to be provided by Internal audit as part of the review and realignment of the service |
| BHP Review | Requested by management as replacement for Kypera audit |

Table 4 – Projects to be delayed

| Audit | Reason |
|----------------------|--|
| Treasury Management | Postponed to end of Q2 at the request of management and due to restructure |
| BACS Payments | Postponed to Q3 due to improvement project scheduled for Autumn 2017. |
| Code of Governance | Postponed to Q4 due to revisions to Constitution |
| Mayor's Charity Fund | Postpone to end of Q4 – new Mayor's Charity Fund will be subject to a certification audit. Advisory work on controls to be provided for fundraising activities before the end of Q2. |

Table 5 – Audits in Progress

| Audit |
|-------------------------|
| Pensions Administration |
| CAM Phase 1 |

| |
|---|
| Payroll |
| Leasehold Management & Service Charges |
| Health and Safety - Asbestos & Legionella (BHP) |
| Troubled Families Grant Certification work |
| Management of Capital Programme |
| HR Contract Administration - Terminations |

Table 6 – Delivery Status as at 31 August 2016

| Delivery Status | |
|---|----|
| Total number of reports to be delivered in current plan | 47 |
| Number of draft/final reports/certifications issued to date | 3 |
| % of reports issued to date | 6% |

- 3.3. Progress to date on the 2017/18 internal audit plan is currently below the profiled target for quarter one. This has largely been due to the significant amount of work required to finalise the outstanding 2016/17 audits during the quarter. However, the expectation is that the revised plan will still be delivered within the year. It is also possible that there may be further amendments as engagements progress to the scoping stage.

3.4. Follow Up of 2015/16 and 2016/17 Audit Recommendations

The Public Sector Internal Audit Standards requires the Chief Audit Executive (the Head of Internal Audit and Investigations) to establish a process to monitor and follow up management actions to ensure that they have been actively implemented or that senior management have accepted the risk of not doing so.

Of the 115 priority 1 and 2 recommendations arising from 2015/16 audits and due to be implemented by 31 August 2017, 101 had either been fully or partly implemented 11 had yet to be implemented and 3 were no longer applicable due to changes within the relevant service. Table 7 sets out the summary. We will be issuing final reminders on the 11 outstanding items.

Table 7 - Status of 2015/16 Priority 1 and 2 Recommendations

| Priority | Total | Implemented | Partly Implemented | Not Implemented | N/A | Status Un |
|--------------|------------|-------------|--------------------|-----------------|----------|-----------|
| Priority 1 | 14 | 11 | 0 | 0 | 3 | 0 |
| Priority 2 | 101 | 84 | 6 | 11 | 0 | 0 |
| Total | 115 | 95 | 6 | 11 | 3 | 0 |

2016/17 Follow Ups

The approach to follow up audits has changed for 2017/18. Instead of relying on self-certification by auditees, Internal Audit will be carrying out follow-up work to determine the extent to which agreed high and medium-priority recommendations have been implemented by management. A follow up Action Plan report setting out a summary of recommendations which have yet to be implemented will be issued as a deliverable following the review.

The following audits which were finalised during t2016/17 have been followed up since the last meeting of the Committee:

- Complaints Management (BHP);
- Fire Maintenance, Servicing & Responsive Repairs (BHP); ***
- Kilburn Square Coop (Review of Internal Controls) and
- Watling Gardens TMO (Review of Internal Controls).

**** Subject to a separate report to the Committee.*

See Appendix 1b of this report for a summary of the results.

Public Sector Internal Audit Standards

- 3.6. The Chartered Institute of Public Finance and Accountancy (CIPFA) adopted a common set of Public Sector Internal Audit Standards (PSIAS) from April 2013 (updated April 2017). These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 3.7. The Standards require that the Head of Audit and Investigations to undertake a periodic self-assessment of the Internal Audit standards against a Quality Assurance & Improvement Plan (QAIP) checklist and outline the results. This self-assessment has recently been carried out and the results and action plan are the subject of a separate report to the Committee.
- 3.8. In addition, the standard also requires the internal audit function to be reviewed by an external organization at least every five years. The Internal Audit function has nominated itself for a peer review which is scheduled to be carried out early in 2018.

Internal Fraud

- 3.9. Internal fraud refers to fraud committed by employees, agency staff and staff in maintained schools. For the purposes of this report, “fraud” includes instances of theft, fraud, misappropriation, falsification of documents, undisclosed conflicts of interest and serious breach of financial regulations. Activity for the first quarter of the year to date is shown in table 8 below:

Table 8 – Internal Fraud 2017/18

| Internal | 2017/18 Q1 | 2016/17 Q1 | 2016/17 | 2015/16 |
|---|-----------------------|-----------------------|----------------|----------------|
| Open Cases b/f | 16 | 22 | 22 | 21 |
| New Referrals | 8 | 10 | 28 | 42 |
| Closed Cases | 8 | 10 | 34 | 31 |
| Open cases carried c/f | 16 | 22 | 16 | 22 |
| | | | | |
| Fraud / Irregularity identified (as summarised below) | 2 | 2 | 12 | 9 |
| Dismissal | 0 | 0 | 1 | 3 |
| Resignation | 0 | 1 | 2 | 5 |
| Warning | 1 | 0 | 1 | 1 |
| Other positive outcome (e.g. system improvement, overpayments only) | 1 | 1 | 8 | 4 |

3.10. In addition to actual fraud, bribery and corruption, the Investigations team also investigate allegations of disrepute, conflicts of interest and computer misuse. There were eight new cases referred in the first quarter of 2017. Notable cases during the first quarter of 2017 are as follows:

- A school employee received a final warning for a significant housing benefit overpayment, which resulted from a failure to declare a change in circumstances;
- An employee was dismissed for misuse of the Zipcar scheme. Criminal proceedings have been initiated for this case and a future internal audit planned, and
- A member of staff at a school received a final warning for a housing benefit overpayment.

Housing Tenancy Fraud

3.11. Recovery of social housing properties has a significant impact upon the temporary accommodation budget. The Audit Commission have estimated that the average value, nationally, of each recovered tenancy is £18,000*. Caseload information is set out in table 9 below.

Table 9 – Housing Fraud 2017/18

| Housing Fraud | 2017/18 Q1 | 2016/17 Q1 | 2016/17 Full Year | 2015/16 Full Year |
|---|-------------------|-------------------|--------------------------|--------------------------|
| Open cases b/f | 82 | 121 | 121 | 174 |
| New Referrals | 27 | 140 | 332 | 250 |
| Closed Cases | 33 | 101 | 371 | 314 |
| Open cases carried c/f | 76 | 160 | 82 | 121 |
| | | | | |
| Fraud Found | 6 | 13 | 52 | 73 |
| Recovered Properties | 5 | 10 | 44 | 63 |
| Applications Refused | NIL | 0 | NIL | 2 |
| Property Size Reduced (Rehousing) | 1 | 1 | 4 | 5 |
| Right To Buy | NIL | 2 | 4 | 3 |
| Value of properties recovered* | £90,000 | £180,000 | £792,000 | £1,134,000 |
| Value of Property Size Reduced | £18,000 | £18,000 | £72,000 | £90,000 |
| Value of Right to Buy Discount Prevented** | NIL | £207,800 | £416,000 | £282,000 |
| Cases with Legal for Possession/Prosecution | 25 | 33 | 26 | 18 |

** Actual amount of discount stopped

- 3.12. **Succession cases** – these cases involve mainly applications from (alleged) family members who claim to have been resident with the deceased resident for a year or more, thus entitling them to succeed the property.
- 3.13. Succession cases are referred by BHP and investigated by the Investigations team from which two cases were proven, with the succession applications being refused and the properties being recovered.
- 3.14. The Investigations team have developed strong links with local Housing Associations/ Residential Social Landlords (RSL) and have investigated their Brent fraud cases for around three years. This resulted in a steady stream of referrals from 2014 onwards. However, this referral stream has dwindled to a

few new cases in the last year and only one new referral in the first quarter of 2017/18. Despite this, 13 RSL properties were recovered in 2016/17. These were previously referred cases, with some notable prosecutions and financial penalties resultant.

- 3.15. The RSL investigations are conducted on the agreement that the Council receives the nomination rights on any recovered properties, Brent Housing are currently working on a list of 13 recovered properties to ensure these have been re-assigned back to Brent for re-allocation.
- 3.16. As the RSL referral stream is significantly down, the Investigations team are working, to make new contacts and re-enliven the reporting protocols. The main challenges to the referral stream have been changes in government funding to RSL reorganisations and changes to business practices. The majority of our RSL officer contacts left their organisations during 2016.
- 3.17. The Investigations Manager recently met with Catalyst Housing Group's newly appointed fraud lead and it is expected that referrals will now start up again. Similar meetings are being scheduled with the other main RSLs.
- 3.18. The Investigations Team will also attend an RSL meeting chaired by the Head of Housing Needs with the local RSL lead managers present. The Investigations Team are also working with the Communications Team to encourage RSLs' to create fraud reporting links on their web pages

Other External Fraud

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

Table 10 – Other External Fraud 2017/18

| Other External Fraud | 2017/18 Q1 | 2016/17 Q1 | 2016/17 Full Year | 2015/16 Full Year |
|-----------------------------|-----------------------|-----------------------|------------------------------|------------------------------|
| Open cases b/f | 14 | 57 | 57 | 20 |
| New Referrals | 14 | 83 | 161 | 99 |
| Closed Cases | 15 | 34 | 204 | 62 |
| Open cases carried c/f | 13 | 106 | 14 | 57 |
| | | | | |
| Fraud / Irregularity | 4 | 4 | 22 | 10 |
| Prosecution | NIL | NIL | 2 | NIL |
| Warning / Caution | NIL | 1 | 6 | 3 |
| Overpayment Identified | 3 | 1 | 7 | 7 |

- 3.20. **Blue Badge.** The Investigations Team undertakes quarterly on-street anti-fraud drives with Parking, the Parking contractor and the local Police. The latest exercise was undertaken in July 2017 and resulted in good publicity. There were six parking fines issued for blue badge related offences. One vehicle was removed, four badges were retained. 12 other parking fines were issued for non blue badge related parking offences.
- 3.21. **Proactive anti-fraud work.** The Investigations Team has scoped a number of high profile anti-fraud proactive drives in the following areas. Client meetings are underway and the projects will start imminently:
- Business Rates – High risk industrial areas. (Q2);
 - Council Tax – Students (Q2);
 - Procurement (Q3);
 - Direct Payments (Q3);
 - Blue Badge – One day per quarter (Q2/3/4), and
 - Housing – visit drive to a high risk block/s / estates (based on risk / intelligence for potential fraud). One chosen by BHP and one by us. (Q3/4)
- 3.21. The Anti-Fraud and Bribery Policy (2013) is currently being refreshed for consideration by Committee in December 2017 and a new Anti-Money Laundering Policy (AML) is also being drafted.
- 3.22. The Investigations team's online fraud reporting form has been set up on both the internet and intranet.
- 3.23. The National Fraud Initiative (NFI) 2016/17 data matching exercise is now under way following data submission in October 2016 and matches generated from January 2017. There are a total of 20,463 data matches (8,036 are recommended) across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have either been reviewed or under review.
- To the end of 2017/18 Q1, the overall summary of NFI work is as follows:
 - Processed - 854;
 - Investigating – 52;
 - Cleared – 507, and
 - Fraud/Error identified – 319.Overpayments / Savings identified £168,177.44.
 - Notable results from NFI reports reviewed is as follows:
 - Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors found resulting in these live badges being cancelled.

Notional saving of £152,000 recorded (£500 for each badge cancelled);

- Brent Pensions to deceased persons - 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered. Four cases remain under investigation by the Investigations team, and
- Insurance - multiple claims within Brent. One case identified with a reserve of £7,100 and has been cancelled/withdrawn.

4. Financial Implications

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

5. Legal Implications

- 5.1. None

6. Diversity Implications

- 6.1. None

7. Background Papers

- 7.1. None

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CONRAD HALL
Chief Finance Officer



Internal Audit
1st Internal Audit & Counter Fraud
Progress Report – 2017/18
London Borough of Brent
September 2017

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Executive Summary

Introduction

This report sets out a summary of the work completed against the 2016/17 and 2017/18 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised. .

Summary of Work Undertaken

The final reports in respect of the 2016/17 period and issued since the last meeting relate to the following areas, with further details of these provided in the remainder of this report:

- Assurance Mapping
- S117 Mental Health
- IT Governance & 3rd Party Management
- South Kilburn Regeneration
- School Expansion Programme
- CAM Phase 2
- Conflict of Interests & Gifts & Hospitality (BHP Staff)
- Early Education Entitlement - Nursery Education Grants (2 Year Olds)
- Appointeeship & Deputyship
- Tree Management – Follow -Up




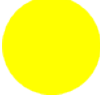
Final Reports issued in respect of the 2017/18 financial year to date are as follows:

- Barham Trust Accounts – Independent Auditor's Report (Account Certification)
- GDPR
- Complaints Management – Follow Up
- Kilburn Square TMO – Follow Up
- Watling Gardens - Follow Up
- Fire Servicing, Maintenance & Responsive Repairs - Follow Up

Detailed summary of work undertaken

SUBSTANTIAL / REASONABLE ASSURANCE REPORTS: 2016/17

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

| Audit | Assurance Opinion and Direction of Travel |
|--|---|
| General Audits | |
| S117 Mental Health Act |  Reasonable |
| IT Governance & 3 rd Party Management |  Reasonable |
| CAM Phase 2 |  Reasonable |
| Early Education Entitlement – Nursery Education Grant (2 year olds) |  Reasonable |

LIMITED ASSURANCE REPORTS – General Audits

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

South Kilburn Regeneration

The regeneration of South Kilburn is a fifteen year programme that is approximately half way through completion. The programme recently underwent a review of its Masterplan, which reviewed the current phasing proposals, timelines, public realm (covering areas such as streets, plants and trees), and much more to ensure that the scheme will address current community needs, programme requirements, new planning policies and the latest standards set by institutions such as the Greater London Authority.

Two project and programme reviews were undertaken in 2016/17 and it was noted that there were some consistent themes and weaknesses identified with regards to the approach to project and programme management. In certain instances this is due to potential improvements that can be made at the corporate level to the underlying methodology and templates in place to support project management activity at the Council. This is particularly relevant in the areas of benefits realisation, escalation protocols, periodic reporting and definition of governance arrangements. The Council should consider the nature of the findings identified from these reviews and update the underlying methodology and resources in place to support programme management to ensure that these improvements are realised across the Council's portfolio of project and programme activity.

Key findings

We noted that the programme is halfway through the entirety of its 15 year life cycle and utilises a Prince 2 approach to project management. Benefits Management guidance is available as part of the Capital Programme's overall programme methodology, however the systematic management of benefits is not embedded in the South Kilburn programme and specific reporting on benefits management does not occur. We also identified other areas of improvement with regards to improving the robustness of the programme management approach. We noted that exceptions in some areas were caused by weaknesses in the underlying methodology to project and programme management at the corporate level.

One High risk and six Medium risk findings were identified as a result of this audit. The action points agreed by management for the high risk finding are set out below.



| Recommendation | Management Response / Responsibility / Deadline for Implementation |
|--|---|
| <u>Ongoing Management of Benefits</u> Management agreed the following actions: <ol style="list-style-type: none"> 1. Develop benefit profiles to fully define benefits across the programme and composite projects including detailed descriptions of | All Agreed. Recommendations 1-5 / Head of Estates Regeneration) Recommendation 6 / Performance Management Officer) |

| Recommendation | Management Response / Responsibility / Deadline for Implementation |
|---|--|
| <p>the intended benefits, baseline position, method of measurement, measurement criteria, benefit owners, monitoring arrangements and target date for realisation.</p> <ol style="list-style-type: none"> 2. Develop and maintain a benefits realisation plan, monitoring the realisation of benefits throughout the lifecycle of the programme. 3. Update Project Status Reports, to include a section on reporting on benefits management. 4. Update programme/project plans to allocate resources to benefits realisation. 5. Roles and responsibilities for delivery of benefits should be clearly documented. Benefits should have clearly assigned owners who are responsible and accountable for its realisation. 6. Refresh the benefits management guidance and circulate the corporate template for recording and monitoring benefits to all programme and project managers. | <p>31 August 2017</p> |

School Expansion Programme

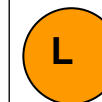
The London Borough of Brent has been experiencing unprecedented growth in demand for primary school places. The Council retains the statutory responsibility to ensure that there are sufficient school places available for all Brent children and young people who need one. In order to deliver the expansion strategy, the Council introduced the £150m School Expansion Programme which aims to create 9,000 new primary school places by the end of the decade, to deal with the rising young population in the Borough.

Activity.

Key findings

The programme utilises a Prince 2 approach to project management. Benefits Management guidance is available as part of the Capital Programme's overall programme methodology, however the systematic management of benefits is not embedded in the Schools programme and specific reporting on benefits management does not occur. We also identified other areas of improvement with regards to the robustness of the programme management approach. Specifically issues were identified around the systematic approach to ensuring the underlying and strategy and supporting business case are systematically reviewed to ensure the programme will deliver the required school places based on up to date assumptions. We noted that exceptions in some areas were caused by weaknesses in the underlying methodology to project and programme management at the corporate level.

One High risk and five Medium risk findings were identified as a result of this audit. The action points agreed by management for the high risk finding are set out below.



| Recommendation | Management Response / Responsibility / Deadline for Implementation |
|--|--|
| <p>Ongoing Management of Benefits</p> <p>Management agreed to take the following actions:</p> <ol style="list-style-type: none"> 1. Develop benefit profiles to fully define benefits across the programme and composite projects including detailed descriptions of the intended benefits, baseline position, method of measurement, measurement criteria, benefit owners, monitoring arrangements and target date for realisation. 2. Develop and maintain a benefits realisation plan, monitoring the realisation of benefits throughout the lifecycle of the programme. 3. Update Project Status Reports, to include a section on reporting on benefits management. 4. Update programme/project plans to allocate resources to benefits realisation. 5. Roles and responsibilities for delivery of benefits should be clearly documented. Benefits should have clearly assigned owners who are | <p>All agreed.</p> <p>Recommendations 1-5 / Capital Programme Manager</p> <p>Recommendation 6 / Performance Management Officer</p> <p>31 August 2017</p> |

| Recommendation | Management Response / Responsibility / Deadline for Implementation |
|--|--|
| <p>responsible and accountable for its realisation.</p> <p>6. Refresh the benefits management guidance and circulate the corporate template for recording and monitoring benefits to all programme and project managers.</p> | |

Limited Assurance Reports (BHP)

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

Conflict of Interests & Gifts & Hospitality (Staff)

No high risk findings were identified as part of the review. 8 medium risk and 1 low risk findings were identified.



Tree Management Follow Up (Non Assurance)

Five recommendations (three priority 1 and two priority 2) were raised in the original report. All five recommendations have been fully implemented.

**Non -
Assurance**

2016/17 and 2017/18 Advisory & Non Assurance Work

| | |
|---|---|
| <p><u>Assurance Mapping</u></p> <p>The Institute of Internal Auditors (IIA) describes Assurance Mapping as a tool to ensure key risks are assured across an organisation, by driving out gaps and overlaps to ensure resources are targeted at critical risks. By performing this exercise, we are able to ensure that the work of the Council's Internal Audit team is focused on the right areas, helping the Council to manage risk more effectively.</p> <p>The Assurance Map includes over 190 individual 'auditable units' i.e. key activities performed by the Council which could be audited by Internal Audit. These have been consolidated into sub groups (tailored to the Council's structure). The Assurance Map demonstrates that the Council has several independent assurance processes and sources over its key risks for each auditable unit, including (but not limited to): External Audit; Ofsted inspections; Trading Standards inspections; and independently commissioned reviews. These sources of assurance, together with the Council's risk management approach, help to ensure that key risks are being managed effectively.</p> | <p>We considered these assurance sources and the risks they covered, to determine where there were gaps and/or overlaps in assurance and to determine an 'assurance requirement' rating for each auditable unit. The heat map was produced which showed the <i>average</i> assurance requirement rating by Council sub-group and suggests that assurance resources may need to be directed at those areas with a higher average assurance requirement rating (a score of >17).</p> |
| <p><u>Appointeeship and Deputyship</u></p> <p>Review of Internal Controls</p> | <p>Action Plan to address internal control gaps identified as part of review.</p> |

| | |
|--|--|
| <p><u>Barham Trust Accounts – Accounts Certification</u></p> <p>The council are trustees for the Barham Park buildings and park. The trust is required to produce accounts for the Charities Commission. The accounts require an independent review by a suitably qualified person.</p> | <p>Internal Audit issued an Independent Auditor's Report for the 2016/17 financial period as required following the review of the accounts and in accordance with Charity Commission's requirements.</p> |
| <p>GDPR Readiness Assessment - Non Assurance</p> <p>The General Data Protection Regulation (GDPR) will impact every entity that holds or uses European personal data both inside and outside Europe.</p> <p>The GDPR gives rise to increased compliance requirements backed by heavy penalties (up to 4% annual worldwide turnover for groups of companies) and a direct right of action for citizens in the European courts. The GDPR is seeking to:</p> <ul style="list-style-type: none"> • Put citizens back in control of their personal data; and • Improve protections for personal data at the entity's side. <p>The Regulations will be fully in force on 25 May 2018. After that point the GDPR will replace the European Data Protection Directive 95/46/EC.</p> | <p>The Council underwent a GDPR Readiness Assessment ("R.A.T") in mid-June 2017. The purpose of the RAT was to assess at a high level, the maturity of the Council's existing privacy controls against the requirements of the GDPR. The assessment which was based on oral evidence only, reviewed 2 key privacy domains:</p> <ul style="list-style-type: none"> • Data Protection architecture (structures in place within the organisation to facilitate compliance). • Data Protection principles (the compliance obligations in the GDPR around data quality, such as accuracy, retention and security). <p>The following themes were identified:</p> <ol style="list-style-type: none"> 1. The Council is in a good starting position for adhering to the requirements under GDPR. 2. The Council should define a more detailed GDPR Programme Strategy. 3. The Council should review the responsibilities of data protection staff and appoint Data Champions to assist with the implementation of the GDPR Programme. 4. The Council should review and update its Data Subject Access Request (DSAR) processes and review the requirements under the right for data portability. |

Follow-Up of Previously Raised Recommendations

The approach to our follow up of internal audit recommendations has changed to improve organisational effectiveness and performance. We have moved from a process of self-certification to a more robust approach of confirming the implementation of agreed recommendations by carrying out verification work on all high and medium priority recommendations. Following the completion of any additional work, a follow up action plan report will now be issued setting out which recommendations which remain outstanding. Management will then be given a deadline for updating Internal Audit on the status of the outstanding recommendations. The Audit Advisory Committee will be updated on the status of implemented and non-implemented recommendations due as part of the normal reporting arrangements.

Set out in the table below is a summary of the audits followed up since the last meeting of the Committee based on the new approach:

| Audit | Initial Assurance Rating | Rating After Follow Up |
|---|---------------------------------|-------------------------------|
| Complaints Management (BHP) | Substantial | Reasonable ** |
| Kilburn Square Coop – Internal Controls Review (BHP) | Limited | Limited |
| Watling Gardens TMO – Internal Controls Review (BHP) | Limited | Limited |
| Fire Servicing, Maintenance & Responsive Repairs (BHP) | Nil | None*** |
| Tree Management (BHP) | Limited | Reasonable |





**Under new assurance rating previous “Substantial” assurance would now be classified as “Reasonable”

*** Under new assurance rating previous “Nil” assurance is now classified as “None”.

Appendix A – Definitions

Audit Opinions

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

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





Recommendation Priorities


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

| | |
|-----------------|---|
| Critical | A finding that could have a: Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability |
| High | A finding that could have a: Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in significant fines and consequences; or |

| | |
|-----------------|--|
| | Significant impact on the reputation or brand of the organisation. |
| Medium | A finding that could have a: Moderate impact on operational; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations resulting in fines and consequences; or Moderate impact on the reputation or brand of the organisation. |
| Low | A finding that could have a: Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation |
| Advisory | A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice. |

Appendix B – Audit Team and Contact Details

| London Borough of Brent | Contact Details |
|--|--|
| Michael Bradley – Head of Audit & Investigations |  020 8937 6526 michael.bradley@brent.gov.uk |
| Aina Uduehi – Audit Manager |  aina.uduehi@brent.gov.uk |
| Dave Verma – Counter Fraud Manager |  020 8937 1495  dave.verma@brent.gov.uk 020 8937 1262 |
| | |

| | |
|---|--|
|  <p>Brent</p> | <p align="center">Audit Advisory Committee 20 September 2017</p> <p align="center">Report from the Chief Finance Officer</p> |
| For Information | Wards Affected: ALL |
| <p align="center">Public Sector Internal Audit Standards (PSIAS) Action Plan</p> | |

1. Summary

- 1.1. The purpose of this report is to inform members of the result of the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). The Quality Assurance and Improvement Programme (QAIP) sets out how we will address the areas where we are not compliant.

2. Recommendations

- 2.1. That the Audit Advisory Committee notes the contents of the proposed Action Plan.

3. Detail

- 3.1. The PSIAS have been in place since 1st April 2013 and replaced the former Code of Practice for Internal Audit in Local Government 2006. The standard was subject to minor revisions in April 2016.
- 3.2. Attribute standard 1300 – Quality Assurance and Improvement Programme (QAIP) states that: *“The Chief Audit Executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.”*
- 3.3. The Quality Assurance and Improvement Programme is designed to enable an evaluation of the internal audit activity’s conformance with the Standards as well as an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 3.4. The quality assurance and improvement programme must include both internal and external assessments.

- 3.5. A checklist has been developed by the 'Relevant Internal Audit Standard Setters' to satisfy the requirements set out in PSIAS for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Local Government Application Note (as developed by CIPFA) in order to give comprehensive coverage to both documents.
- 3.6. The new Head of Audit and Investigations undertook a self-assessment in August 2017 against the checklist. The full assessment has not been included in this report but is available on request.
- 3.7. Our assessment is that, while a majority of the requirements are met, the Internal Audit Service is not yet fully compliant with the PSIAS. The service is working towards compliance. Appendix 1 sets out the actions which will be taken to enable Brent's Internal Audit service to be compliant with the Standards. The intention to implement these actions prior to the Peer Review in spring 2018. (We have not included the full QAIP checklist and assessment but it is available on request.)
- 3.8. The Quality Assurance and Improvement Programme includes the requirement for an external assessment of internal audit against the PSIAS every five years (this should be completed before 31 March 2018) as defined by the Standard. Brent has yet to complete this external assessment but has taken steps to have a Peer Review undertaken in spring 2018.

4. Financial Implications

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

5. Legal Implications

- 5.1. The Council is required by law to maintain an effective internal audit function.

6. Diversity Implications

- 6.1. None.

7. Background Papers

- 7.1. None.

Contact Officer Details

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CONRAD HALL
Chief Finance Officer

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Appendix 1

PSIAS – Quality Assessment & Action Plan

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------------------------|-----------|---|---|--|--------------------------------|---|
| 1.2. Reporting Lines | | | | | | |
| 1. | 1100 | 1.2.1 The Board reviews and approves the appointment of the Chief Audit Executive (CAE) | Partly compliant. The independent chair was part of the recruitment process but the Committee was not part of approval process. | The Audit Advisory Committee will be required to formally approve the appointment of the Chief Audit Executive (CAE) | Chief Finance Officer | If necessary, future meeting of the Audit Advisory Committee. |
| 1.3. Independence | | | | | | |
| 2. | 1130 | 1.3.7. Consultancy work that internal audit may undertake is clearly defined and agreed in advance by the Audit Committee when required by the PSIAS. | Partly compliant. Not explicitly defined and no AC approval currently required. IA are actively trying to input to transformation activity in order that risk/ control issues are considered early in the process. This can be described as 'consultancy' but is not something we propose seeking AC approval on. | Consultancy work to be more explicitly defined in the Internal Audit Strategy document. | Head of Audit & Investigations | 31 December 2017 |
| 1.4. Risk based plan | | | | | | |
| 3. | 2010 | 1.4.1 A risk based internal audit plan has been developed which: <ul style="list-style-type: none"> considers the | 1.4.1 A risk-based plan was produced for 2017/18. An Assurance Mapping | Review of council's RM framework to promote the development of an approach that requires | Head of Audit & Investigations | 31 March 2018. |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|--|--|---|--|---|
| | | <p>relative risk maturity of the organisation</p> <ul style="list-style-type: none"> considers the risk appetite as defined by management includes an assessment of optimal resources and skills required to deliver both the audit assurance and consultancy work, including identification of specialist skills, which may be required is clearly designed to enable the CAE to deliver an annual opinion on the effectiveness of Governance, risk management and the system of | <p>Exercise / IT Risk Diagnostics was undertaken in 2016/17 to identify areas of highest risks.</p> <p>The risk maturity was implicitly considered for each department as part of the mapping exercise. Risk appetite has not been explicitly defined at departmental level.</p> <p>Draft Plan was circulated to CMT. Revisions have been made which will be discussed with DMTs</p> <p>Compliant.</p> | <p>a risk appetite to be defined at Departmental level as a minimum.</p> <p>DMT liaison meetings with CAE (Head of Audit & Investigations)</p> <p>None.</p> | <p>Head of Audit & Investigations</p> <p>N/A</p> | <p>30th September 2017.</p> <p>N/A</p> |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|--|---|--|---|-----------------------------------|
| | | control <ul style="list-style-type: none"> has been approved by the Board has been promulgated to all relevant parties is subject to regular review to ensure that it remains appropriate and current | Compliant. Compliant Compliant | None. None. None. | N/A N/A N/A | N/A N/A N/A |
| 4. | 2030. | 1.4.2 Either the audit plan or a separate audit strategy document should: <ul style="list-style-type: none"> include an assessment of risks that the audit service itself faces in delivering the plan and plans for controlling and mitigating the risks identified include consideration of if, and how, internal audit will rely on the assurance provided by other | Not formally – but reviewed regularly. Work can be transferred from in-house to contractor as appropriate to address resource constraints. As above. | Internal Audit risk assessment to be undertaken. As above | Head of Audit & Investigations. As above | 31 December 2017 As above. |

4

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------------------------------|-----------|---|--------------------------------------|---|---|---------------|
| | | promote co-operation between internal and external audit | This will be refreshed. | | | |
| | | 1.5.3 When auditing shared service functions consideration is given to audit work being performed by other audit services such that duplication is minimised | No protocols are currently in place. | Arrangements to be agreed for the IT And Procurement shared services. | Head of Audit & Investigations / Head of Procurement / Head of IT | 31 March 2018 |
| | | 1.5.4. When internal audit needs to work with other internal auditors from another organisation, the respective roles and responsibilities of the involved parties have been clearly defined and agreed in advance. | No current arrangements | An approach will be prepared in anticipation of this event. | Head of Audit & Investigations | 31 March 2018 |
| Structures & Resources | | | | | | |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|---|-----------|---|--|--|--|--------------------------------|
| 2.2 Technical training & development | | | | | | |
| 6. | 1230 | 2.2.1 All new staff receive induction training including both into the internal audit service and induction into the organisation | 2.2.1 No recent additions to Team. However Finance Trainees assigned to Team undergo Induction | An induction programme will be prepared in advance of any new members of staff post restructure. | Head of Audit & Investigations / Audit Manager | 30 th October 2017. |
| | | 2.2.2 Arrangements are in place to ensure that new staff receive an early assessment of their development needs and appropriate guidance, and training to address these needs | 2.2.2 Undertaken for Finance Trainees who generally have never had any internal audit experience | As above. | As above | As above |
| | | 2.2.3 All internal auditors undertake Continuing Professional Development (CPD) and have a training and development plan approved by their line manager | 2.2.3 Not in place. | The T&D plan for IA staff will be prepared and monitored as part of the appraisal process | Head of Audit & Investigations / Audit Manager | 31 January 2018 |
| | | 2.2.4 Audit planning includes a sufficient time | 2.2.4 N/A | To be included as part of arrangement for 2.2.3 above. | As above. | As above. |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------------------------------|-----------|--|--|---|---|---|
| | | provision for training (including CPD) for all | | | | |
| 2.3 Resourcing | | | | | | |
| 7. | 2030 | <p>2.3.1 Internal audit is sufficiently resourced (in terms of staff and budget available) and deployed effectively to deliver the approved plan</p> <p>2.3.2 There is a recruitment strategy that sets out the recruitment standard to ensure that all staff have the appropriate intellectual qualities, personal attributes, skills, knowledge and qualifications</p> <p>2.3.3 A succession plan exists to ensure that senior vacancies are filled promptly by appropriately qualified staff.</p> | <p>2.3.1 In-house and Contractor – In house resources are being reviewed as part of a restructure of the service. It is likely that additional in-house resource will be recruited.</p> <p>2.3.2 Not in place.</p> <p>2.3.3 No plans currently in place – to be addressed.</p> | <p>Audit and Investigations restructure</p> <p>To be addressed in planned restructure</p> <p>To be addressed in planned restructure</p> | <p>Head of Audit & Investigation.</p> <p>As above.</p> <p>As above.</p> | <p>31 October 2017.</p> <p>As above.</p> <p>As above.</p> |
| 2.4 Performance Management | | | | | | |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|------------------------|-----------|---|--|---|---|---|
| 8. | | <p>2.4.1. appropriate personnel management and development procedures are in place within internal audit including:</p> <ul style="list-style-type: none"> • Written job descriptions • Required competency frameworks • Recruitment procedures • Training and continuing education arrangements • Personal objectives setting and performance appraisal | <p>Compliant.</p> <ul style="list-style-type: none"> • Development plans form part of the appraisal process but are not currently in place • Required as part of the annual appraisal process but are not currently in place | <p>None.</p> <p>Objectives, development plans and competency framework will be addressed post restructure.</p> <p>As above.</p> | <p>N/A</p> <p>Head of Audit & Investigations / Audit Manager</p> <p>As above.</p> | <p>N/A</p> <p>31 March 2018.</p> <p>As above.</p> |
| Audit Execution | | | | | | |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|---|-----------|--|--|--|--------------------------------|---------------|
| 3.1 Management of the internal audit service | | | | | | |
| 9. | 2040 | 3.1.1 The CAE has established policies and procedures (typically in the form of a manual) to guide the internal audit activity | No complete manual is in place although procedural protocols are in operation. | Audit policies and procedures will be formalised in the form of a manual and include appropriate coverage of all the requirements in this section. | Head of Audit & Investigations | 31 March 2018 |
| | | 3.1.2 Audit methodologies have been developed and are regularly reviewed and updated to ensure they are in line with current practice | See above. | As above | As above | As above |
| | | 3.1.3 Policies in respect of document confidentiality, retention requirements and the release to internal and external parties have been developed and are consistent with the organisation's guidelines and any | See above | As above | As above | As above |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|--|---|---|---|--|
| | | <p>pertinent regulatory or other requirements</p> <p>3.1.4 Quality assurance procedures are defined and cover all aspects of the internal audit activity including: Supervision and review.</p> <p>3.1.5 QA procedures and checklists including periodic internal quality reviews</p> <p>3.1.6 Compliance with applicable laws, regulations and government or industry standards</p> <p>3.1.7 Auditee / customer satisfaction surveys</p> <p>3.1.8 Periodic self-assessments against the PSIA's are performed and actions taken to address</p> | <p>See above.</p> <p>Non-compliant</p> <p>Compliant.</p> <p>Partly</p> <p>Not undertaken previously but initiated</p> | <p>As above.</p> <p>See 3.18 below.</p> <p>None.</p> <p>Satisfaction surveys to be reintroduced following completion of audits.</p> <p>Actions from recent self-assessment to be presented to Audit Advisory Committee. Action Plan to be prepared and</p> | <p>As above</p> <p>Head of Audit & Investigations</p> <p>N/A</p> <p>Head of Audit & Investigations</p> <p>As above.</p> | <p>As above</p> <p>See 3.1.8 below.</p> <p>N/A</p> <p>30th September 2017</p> <p>20th September 2017</p> |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|---|--------------|---|---|---|---|---|
| | | weaknesses | | implemented. | | |
| 3.3 Performance of Audit work / audit delivery | | | | | | |
| 10. | 2240 2320 | <p>3.3.1 Work programmes that will achieve the engagement objectives are developed and approved prior to use and include procedures for identifying, analysing, evaluating and documenting information during the engagement</p> <p>3.3.2 Internal auditors use standard documentation to ensure that evidence and findings are adequately documented</p> <p>3.3.3 Work papers are clear, concise, and appropriately cross-referenced to work programmes so as to enable independent review and</p> | <p>Compliant</p> <p>Partly compliant.</p> <p>Compliant.</p> | <p>None.</p> <p>Contractor and In house Team to use standard documentation to record evidence and findings from audits</p> <p>None.</p> | <p>N/A</p> <p>Head of Audit & Investigations / Audit Manager / Contractor Senior Manager</p> <p>N/A</p> | <p>N/A</p> <p>30th September 2017</p> <p>N/A</p> |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|--|---------------------------|---|---|---------------|
| | | comprehension. 3.3.4 There is evidence that internal auditors are identifying, analysing, evaluating and documenting sufficient information to support the audit conclusions and opinions | Compliant | None. | N/A | N/A |
| | | 3.3.5 There is evidence to confirm that all engagements are led or supervised by suitably competent individuals. | Compliant. | None. | N/A | N/A |
| | | 3.3.6 Audit findings are discussed and confirmed with auditees prior to report drafting | Compliant. | None. | N/A | N/A |
| | | 3.3.7 Automated tools (e.g. data interrogation) are used appropriately to undertake testing as | Partly compliant. | Internal Audit staff to be trained on use of automated testing tools for audit testing. | Head of Audit & Investigations / Audit Manager/Contractor | 31 March 2018 |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|----------------------|--------------|--|---------------------------|-----------------|---------------------|-----------|
| | | efficiently as possible | | | | |
| 3.4 Reporting | | | | | | |
| 11. | 2440 2500 | 3.4.1 Communications are accurate, objective, clear, concise, constructive and timely. | Compliant. | None. | N/A | N/A |
| | | 3.4.2 Audit reports convey appropriate audit scopes, limitations of scope, results, recommendations and an opinion on the adequacy of controls | Compliant. | None. | N/A | N/A |
| | | 3.4.3 Audit evidence is reviewed by a senior member of the audit function to ensure that the audit has been carried out in sufficient depth and to the function's quality standards prior to the audit findings being distributed to | Compliant. | None. | N/A | N/A |

Appendix 1


| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|---|---------------------------|--|---------------------|---------------------------------|
| | | the auditee | | | | |
| | | 3.4.4 Internal audit recommendations help the organisation address the risk in a way that does not create unnecessary control and the recommendations are practical | Partly compliant. | Time management on individual audits to be improved. | Audit Manager | 30 th November 2017. |
| | | 3.4.5 Draft audit reports are issued for consideration by the auditee within a reasonable, pre-agreed, timescale before they are finalised | Partly Compliant. | As above. Time management on individual audits to be improved. | Audit Manager | As above. |
| | | 3.4.6 Audit issues are reported to appropriate levels of management and to the Audit Committee | Compliant. | None. | N/A | N/A |
| | | 3.4.7 The CAE informs the Audit Committee if he/she believes that senior | Compliant. | None | N/A | N/A |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|---|--|---|---|----------------|
| | | management has accepted a level of residual risk that may be unacceptable to the organisation | Partly – currently partly self-assessment. But follow up to be more comprehensive in future. | New follow up procedures to be implemented with verification checks and additional tests on all high and medium priority recommendations. | Head of Audit & Investigations /Audit Manager | 31 August 2017 |
| | | 3.4.8 There is a procedure for follow-up that ensures agreed recommendations are implemented effectively or that senior management has accepted the risk of not taking action | Compliant. | None. | N/A | N/A |
| | | 3.4.9 Unresolved or outstanding audit issues are reported to senior management in accordance with pre-agreed timescales and escalation procedures | Compliant. | None | N/A | N/A |
| | | 3.4.10 The CAE presents to the Board at least annually, a report of internal audit activity | | | | |

Appendix 1

| Action No | PSIAS Ref | PSIAS Standard | Conformance with Standard | Proposed Action | Responsible Officer | Timescale |
|-----------|-----------|---|---------------------------|---|--------------------------------|----------------------------|
| | | <p>containing an opinion of the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes</p> <p>The annual report also states if the function conforms to the PSIAS and report any results of the QAIP</p> | Not compliant. | Annual report to include statement to the effect as to whether the internal audit function conforms to the PSIAS and results of any QAIP. | Head of Audit & Investigations | 30 th June 2018 |

| | |
|---|--|
|  | <p style="text-align: center;">Audit Advisory Committee 20 September 2017</p> <p style="text-align: center;">Report from the Chief Finance Officer</p> |
| For Information | Wards Affected: ALL |
| <p>Fire Servicing, Maintenance and Responsive Repairs of Fire Installations (Brent Housing Partnership) – Follow up of Implementation of Recommendations</p> | |

1. Summary

- 1.1. As requested at the June 2017 meeting of the Audit Advisory Committee, an update on the status of the implementation of the recommendations in the 2015/16 internal audit report on 'Fire Servicing, Maintenance and Responsive Repairs of Fire Installations' is presented for consideration by Members.

2. Recommendations

- 2.1. That the Audit Advisory Committee notes the contents of the follow up internal audit report.

3. Detail

- 3.1. At the June Audit Advisory Committee, Members requested that a report be presented at the September 2017 meeting on the status of implementation of the recommendations in the 2015/16 internal audit report on 'Fire Servicing, Maintenance and Responsive Repairs of Fire Installations' which received a 'Nil Assurance' rating following the last audit.
- 3.2. In the previous report, sixteen recommendations (eleven priority 1, four priority 2 and one priority 3) were made and accepted by management. Based on the evidence presented, our follow up audit revealed that:
 - Ten recommendations have been fully implemented [nine priority 1 and one priority 3],
 - One recommendation has been partially implemented [one 1].
 - One recommendation [priority 1] is not applicable. This is because no action has had to be taken to implement the recommendation. Management have asserted that the performance of the contractor has meant that no claim has had to be made for liquidated damages as a result of poor performance.

Details of the areas where there are outstanding actions are included at appendix A. Management have indicated that outstanding recommendations will be implemented by the end of October 2017.

Please note that four recommendations (all priority 1) were not followed up as part of this review as they related to the procurement of the initial contract which has not been re-let since the audit was initially undertaken in 2015/16.

3.3. This audit originally attracted a 'Nil assurance' rating based on the previous definition. As we did not follow up on all of the original recommendations we have not amended the overall original assurance rating. However, if we were to provide an assurance opinion on the risks relating specifically to fire servicing, the outcome would increase to 'reasonable assurance'.

3.3. The follow up report is attached as Appendix 1.

4. Financial Implications

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

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None.

7. Background Papers

7.1. None.

Contact Officer Details

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CONRAD HALL
Chief Finance Officer

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]

FOLLOW UP ACTION PLAN

| | | | |
|----------------------------------|--|---------------------------------|----------------|
| Department: | Brent Housing Partnership | Final Report Date: | 17 May 2016 |
| Audit Reference: | 2015/16 – Fire Servicing, Maintenance & Responsive Repairs of Fire Installations | Follow Up Date: | 2 August 2017 |
| Original Assurance Rating | NIL | Revised Assurance Rating | Not Applicable |

| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------------|---|---|-----------|--|--|
| 3. Page 181 | <p><u>Contracts & Variation to Contracts</u></p> <p>We noted that although works priority ratings are defined in the contract, the automatic target dates for completion on the Northgate Works Order report provided to us do not reflect those in the contract. For example, a priority three works order would need to be attended to within 3 working days and resolved within 21 working days (i.e. 24 working days). The automatic target completion dates on the Northgate system are 29 to 30 calendar days long, and as a result understate the time available to the contractor to complete works. The system has been configured to allow completion times to be inserted</p> | Automatic completion dates on Northgate should be reviewed to ensure these comply with the terms of the contract. | 2 | <p>Agreed.</p> <p>Contract managers to check that completion dates for all priority repairs match the timescales for the main responsive maintenance contract. If there is a difference, time scales in the Integrated Asset Management contract will be used.</p> | <p>Implemented.</p> <p><i>Northgate is no longer used. Excel database now used to log details of all scheduled works.</i></p> <p>Automatic completion dates are included on the Excel Schedule. The schedule was reviewed and is considered to be sufficiently comprehensive. It includes data which enables the Contract Manager to track the successful completion of works within the parameters set within the contract. A summary of completed; overdue and Works in progress can be and are generated from the schedule quarterly.</p> <p>The information on this spreadsheet is to be transferred to a database known as Keystone in March 2018.</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Department: | Brent Housing Partnership | Final Report Date: | 17 May 2016 |
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| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|--|---|-----------|---|---|
| Page 182 | into a field relevant to a priority rating. This thereafter automatically allocates this time to each works order raised with that particular priority rating. This means that Contract Managers cannot use Northgate effectively to track the successful completion of works within the parameters set within the contract. | | | | |
| 6. | <u>Asset Management)</u> We requested a copy of Brent Housing Partnership's most up-to-date asset register and could not be provided with this. We could not therefore identify whether any additions and disposals had occurred. In addition to this, we requested but were not provided | The master BHP asset register should be made available to all Contract Managers in a centrally accessible location on a BHP shared drive. | 1 | Agreed. Asset register will be made available to contract managers as a read only document and saved on the centralised filing system. | Implemented The Asset Register is available on request and is now maintained by the BHP Contract Manager on an Excel Spread sheet. As indicated above it will be moved to a Database know as Keystone in March 2018. The Contract Manager confirmed that the use of the database will be a more appropriate |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|--|---|-----------|---|--|
| Page 183 | <p>with a formal list of additions and disposals made during the duration of the contract. As a result, we could not confirm whether the Contractor was informed of additions and disposals in a timely manner.</p> <p>In addition to this, because we were not provided with an asset register by the Contract Manager, we could not confirm that Contract Managers receive sufficient information in respect of assets for which BHP has responsibility, nor additions or deletions to the asset register.</p> <p>Clause 3.15.2 of the Specification in the contract places a responsibility onto the contractor to maintain accurate asset registers of all plant and</p> | Whenever the master BHP asset register is updated, Contract Managers should be informed in a timely manner so that they may | | <p>Agreed.</p> <p>Asset Manager will update the register on a monthly basis and</p> | <p>way of maintaining the register.</p> <p>Confirmed by discussion and review that the register is updated quarterly following receipt of details of completed works from the contractor. The most up to date version of the register was available for our review.</p> <p>Confirmed by discussion that the Contract Manager checks the quality of data provided by the contractor. Any anomalies or issues are followed up with the contractor during the quarterly contract monitoring meetings with the contractor.</p> <p>Implemented.</p> <p>As above.</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Original Assurance Rating | NIL | Revised Assurance Rating | Not Applicable |

| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|---|--|-----------|---|--|
| Page 184 | <p>equipment covered by this contract. It goes on to state: 'Each time the Contractor visits a site they shall update the plant and equipment registers and issue the revised registers to the Contract Administrator.'</p> <p>We were provided with a version of the Fire Plant and Equipment Asset Register which had last been updated in May 2014 prior to the contract inception. We requested copies of more recent asset registers from the current Contract Manager but were not provided with these.</p> | <p>in-turn inform contractors and update the asset register where appropriate.</p> <p>The incumbent contractor for the Fire Servicing, Maintenance and Responsive Repairs contract should be chased for the most up-to-date version of the fire plant and equipment asset register.</p> <p>Where an up to date fire plant and equipment asset register is not provided by the contractor on at least a monthly, and timely basis this should be escalated via performance management meetings.</p> | | <p>issue an update to contract managers.</p> <p>Agreed.</p> <p>Completed April 2016.</p> <p>Agreed.</p> <p>Will be implemented in performance management meetings from May 2016</p> | <p>Implemented.</p> <p>As above. The contractor provides quarterly updates and schedules of works to the Contractor Manager.</p> <p>Implemented.</p> <p>Quarterly performance management meetings now held with contractor. However meetings are yet to be minuted.</p> <p><u>Recommendation</u> The quarterly performance managements meetings with the contractor should be minuted.</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]

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| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------------|--|--|-----------|--|--|
| 7. Page 185 | <p><u>Planned Maintenance/Scheduled Works</u></p> <p>We were informed by the previous contract administrator that the planned maintenance schedule provided to us had last been updated in July 2015.</p> <p>The Regulatory Reform (Fire Safety) Order 2005 states, 'the responsible person must ensure that the premises and any facilities, equipment and devices provided in respect of the premises under this Order...are subject to a suitable system of maintenance and are maintained in an efficient state, in efficient working order and in good repair...'</p> <p>The planned maintenance</p> | <p>An up-to-date listing of fire extinguishers and their expiration dates should be obtained from the contractor immediately.</p> <p>Where information is not forthcoming from the contractor, management should consider urgently surveying the affected properties to ascertain whether in-date fire extinguishers are in place.</p> | 1 | <p>Agreed.</p> <p>Contractor records being checked as part of review of Fire Services contract, listing of fire extinguishers and expiry dates has been requested in week of 9/5/16.</p> <p>Agreed.</p> <p>Urgent inspections will be scheduled if information cannot be obtained from contractor.</p> | <p>Implemented.</p> <p>An up-to-date list of fire extinguishers and their expiry dates is maintained on a portal by the Contractor. The Contract Manager has access to the list and can see live information on the portal. The Contract Manager also maintains an excel schedule which includes this information.</p> <p>Implemented</p> <p>The information was provided by the contractor so there was no need for urgent inspections to be carried out.</p> <p>The contractor provides quarterly updates to the Contract Manager as</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Original Assurance Rating | NIL | Revised Assurance Rating | Not Applicable |

| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|---|---|-----------|--|---|
| Page 186 | schedule provided to us includes an 'equipment details' sheet that records 551 pieces of equipment across various properties, 149 of which are fire extinguishers. We noted that 20 fire extinguishers on the listing had expiration dates of 2013, 2014, or no expiration date stated at all. The sheet did not contain any indication as to whether these fire extinguishers had been replaced by the contractor. | Where information is available from the contractor, management should consider undertaking a spot-check of fire extinguishers to ascertain the accuracy of the expiration dates being reported. | | Agreed. Standard contract management guidelines being drafted and will include spot checks, to be added to Quality Management System. | part of the contract monitoring arrangements. The information provided is very specific and is the basis for the agreed work programme undertaken by the contractor. Implemented Monthly spot checks are now carried out by Estate Inspectors using the Equipment Schedule. Management have asserted that a record of these inspections are recorded on the Local Environment Quality (LWQ) forms. |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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|----------|------------------|---|-----------|--|---|
| Page 187 | | Where fire extinguishers have expired, these should be replaced with urgency. | | <p>Agreed.</p> <p>As above. Fire Services contract is currently being reviewed and new clienting arrangements being put in place. Will include audit of contractor servicing programme and replacement of any fire extinguishers that are out of date.</p> | <p>Implemented</p> <p>This forms part of the responsibility of the contractor and via the vigilance of residents in notifying BHP when they come across any out of date equipment.</p> <p><u>Recommendation</u></p> <p><i>Contract Manager should include this review as an agenda Item at quarterly contract management meetings. The Contractor should be required to generate a list of equipment which will be expiring in each quarter or is about to expire and be proactive in ensuring</i></p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Original Assurance Rating | NIL | Revised Assurance Rating | Not Applicable |

| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|--|--|-----------|---|--|
| Page 188 | | | | | <i>that they are replaced as opposed to relying on the vigilance of residents.</i> |
| | <p><u>Planned Maintenance / Scheduled Works</u></p> <p>Although the planned maintenance schedule makes reference to various types of inspections, it does not state which buildings require what type of maintenance (especially in the case of dry risers), and when next scheduled maintenance visits should occur (especially in the case of quarterly or ad-hoc checks).</p> <p>The spreadsheet makes reference to June 2015 and December 2015, which may be indicative of when visits were planned or expected. However,</p> | <p>The planned maintenance schedule should be reviewed. The schedule should specify the type and frequency of planned maintenance tasks for each property or piece of equipment.</p> | 1 | <p>Agreed.</p> <p>Completed May 2016.</p> | <p>Implemented.</p> <p>The Planned Maintenance Schedule was reviewed after the audit and is considered to be adequate.</p> <p>Confirmed via discussions with the Contract Manager that the Planned Maintenance Schedule is reviewed annually and when new stocks and / or assets are added.</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Page 189 | <p>multiple entries in the equipment listing were marked as 'no' in the June 2015 column suggesting maintenance was not undertaken. These items including dry risers and fire extinguishers, both of which require quarterly inspections in accordance with the terms of the contract.</p> <p>Furthermore, because this was the only planned maintenance schedule made available to us, we could not confirm that maintenance was undertaken as expected in December 2015.</p> | | | | |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]

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| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------------|--|--|-----------|--|---|
| 9. Page 190 | <u>Responsive Maintenance/Ad-Hoc Instructions</u> We obtained a report of works orders raised in the last 12 months. These are logged on Northgate by the Contract Manager when raised and when completed. The following was noted: <ul style="list-style-type: none"> 2/10 of the works were completed in an untimely manner; Completion dates for 4/10 work orders had not been recorded ; Call sheets for 3/10 of the works were held off site and had to be requested by the Contract Manager; | Works orders should be input into the Northgate system as soon as possible after verbal instruction. | 1 | Agreed. Completed May 2016 | Implemented. Work orders are no longer maintained on Northgate as indicated in 3 above. Quarterly orders are raised by the contractor on the basis of the scheduled works for the relevant quarter. The Contractor reports back to the Contract Manager on a quarterly basis on all works undertaken during that quarter. |
| | | Work sheets should be requested from the contractor on a regular basis. Work sheets should be collated and retained by the Contract Manager. | | Agreed. Actioned April 2016, will be checked through spot audits. | Implemented As above. |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Original Assurance Rating | NIL | Revised Assurance Rating | Not Applicable |

| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|--|--|-----------|--|---|
| Page 191 | <ul style="list-style-type: none"> Call sheets for the remaining 7/10 of the works were not provided; We were not able to confirm in eight of these cases the dates on which the contractor was verbally instructed to perform the works, and on which date the contractor actually undertook the works, We could not ascertain whether any discrepancies or late completion of work was due to poor performance by the contractor, or whether this was due to late input onto the Northgate system. | Where works are late, management should give consideration to deducting liquidated and ascertained damages in accordance with the terms of the contract. | | <p>Agreed.</p> <p>Contractual KPIs are being reviewed in May 2016. A comprehensive suite of KPI's will be developed that will drive performance and ensure any liquidated and ascertained damages are recognised and applied.</p> <p>.</p> | <p>Not Applicable</p> <p>No liquidated damages have been applied to date. Head of Compliance & Risk (BHP) indicated that the performance of the contractor has been good to date and thus have been no occasions when BHP have had to make a claim for liquidated damages.</p> <p>Implemented</p> <p>Confirmed that a comprehensive suite of key Performance indicators have been developed as follows:</p> <ul style="list-style-type: none"> Quarterly servicing and testing of fire alarms Yearly fire extinguisher service and maintenance Quarterly servicing and testing of emergency lighting Emergency / urgent repairs carried out on first visit Non urgent repairs carried out on first visit |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]

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| Orig Ref | Original Finding | Recommendation | Priority* | Original Management Response | Follow Up Outcomes |
|----------|--|--|-----------|--|--|
| Page 192 | | | | | <ul style="list-style-type: none"> Order status update (e.g. variation approval, parts on order, joint inspection or H & S issue) Invoicing – submitted within 28 days of completion. |
| 10. | <p><u>Quality Control</u></p> <p>We were provided with scans of 11 engineers' call sheets for the 2015 year only. These work sheets related to Albert Road properties only; we did not receive any other call-sheets relating to any other properties or roads.</p> <p>Although these were made available to us, they were limited in number and we were not provided with any record indicating that the call sheets or the works themselves had been inspected by a surveyor or the</p> | Post-inspections of work should be undertaken by BHP Officers on a regular basis in conjunction with the payment cycle and in accordance with the terms of the contract. | 1 | <p>Agreed.</p> <p>All planned works will be subject to the same management processes whether as part of the Integrated Asset Management Programme or smaller contracts works. Payments will only be made if the process has been followed and the handover and inspection documents are completed correctly.</p> | <p>Partly Implemented</p> <p>Management have indicated that BHP are in the process of recruiting to a Fire Safety Surveyor post. The post holder will be dedicated to fire safety works including post inspection of fire servicing, maintenance and responsive repairs of fire installations and post inspection of related remedial works.</p> <p>Monthly inspections are currently carried out by Estate Inspectors.</p> |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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|----------|---|--|-----------|---|---|
| Page 193 | Contract Manager. As a result, we cannot confirm that the contractor has completed works in accordance with the planned maintenance schedule, or in accordance with the terms of the responsive repairs works orders raised. | A record of post-inspections undertaken by BHP Officers should be maintained. | | Agreed. | Implemented. |
| | We noted that the responsive repairs listing between January 2015 and January 2016 recorded 16 responsive repairs works orders, and the planned maintenance schedule last updated July 2015 listed 551 pieces of equipment across 73 different locations. We would therefore have expected more than 11 call sheets/maintenance records to have been provided to the Contract Manager over 12 months if the planned | Post-inspection reports should be requested from the contractor and monitored on a regular basis. | | A contract management filing system is being set up to ensure all specific contract information, including minutes will be kept within document hub. Hard copies will be saved in electronic format in central record system. | Verified by reviewing file structure and template. |
| | | Any differences between BHP's analysis of the percentage rate of satisfactory delivery of services and the contractor's analysis of the same should be investigated and any appropriate action should be taken through contract management meetings and within the terms and conditions of the contract. | | Agreed. As above. Reports will be stored with contract records in central filing system. | Implemented. There are very little differences in terms of % between both records. The Contractor's access to property was the main issue i.e. having access at the right time. BHP has now provided the Contractor with details of who needs to be contacted within BHP should there be access problems. |
| | | | | Agreed – new arrangement being | |

INTERNAL AUDIT REVIEW – FOLLOW-UP – [FIRE SERVICING, MAINTENANCE & RESPONSIVE REPAIRS OF FIRE INSTALLATIONS]**FOLLOW UP ACTION PLAN**

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| Department: | Brent Housing Partnership | Final Report Date: | 17 May 2016 |
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| Page 194 | <p>maintenance programme was being fulfilled, and also evidence that these works had been inspected.</p> <p>We were also provided with one email by the previous contract administrator, dated March 2015, which indicated that one inspection of works had been undertaken. We could not be provided with further evidence of inspections.</p> <p>In addition to this, Section 12(b) of the contract preliminaries states: 'The Contractor is to carry out a minimum of 10% post inspections of all completed works, and to submit the results in the agreed summarised format, to the Contracts Administrator, on a</p> | | | implemented for collecting satisfaction data through Opti-time appointment scheduler for all responsive maintenance contracts. | |

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| Page 195 | monthly basis.’ We requested but were not provided with this information. We were informed by the Contract Manager that the Contractor does not provide information regarding post-inspections. | | | | |
| 11. | <u>Payments</u> We were informed by the Contract Manager that Liquidated and Ascertained Damages are not currently deducted for overdue works, although the works order listings on Northgate indicate that some works may be overdue. We requested an explanation as to why the liquidated and ascertained damages had not been deducted, whether the | The theoretical amount of liquidated and ascertained damages foregone should be calculated if possible. The amount of liquidated and | 1 | Agreed. See 9 above. | Not Applicable No liquidated damages have been applied to date. The Head of Compliance & Risk (BHP)confirmed that the performance of the contractor has been good to date and that there have been no occasions when BHP have needed to make a claim for L & A damages. |

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| Page 196 | amount of theoretical liquidated and ascertained damages was known, and whether the non-deduction of these had been approved by a BHP Officer in accordance with the Scheme of Delegation. We did not receive a response regarding this issue. | ascertained damages foregone in any period should be reported to senior management in accordance with any management reporting timetable. | | Agreed. As above. | Not Applicable See above |
| | | Where the amount of liquidated and ascertained damages to be foregone would exceed an officer's delegated write-off authority in accordance with the Scheme of Delegation or any different amount assessed as appropriate for the contract in question, the amount should be considered by a Senior Officer and certified as appropriate under the circumstances. | | Agreed. As above. | Not Applicable See above. |
| | | Where there is doubt over | | | Not Applicable |

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| Page 197 | | whether liquidated and ascertained damages can still be deducted, and whether the prolonged non-deduction of these amounts to a variation to the contract, BHP should seek legal advice to ascertain what the process ought to be going forward. | | Agreed. As above. | As above. |
| 12. | <p><u>Contract Performance Monitoring</u></p> <p>We confirmed that although the contract specifies detailed arrangements for promoting effective communication between BHP and the contractor, only three meetings have been held with the contractor since November 2014, one of which was a pre-contract meeting. Although the minutes indicate that</p> | <p>Contract management meetings should be held on a monthly basis in accordance with the terms of the contract.</p> <p>The performance management reports specified in the contract should be requested from the contractor where these are not provided on a monthly and timely</p> | 1 | <p>Agreed.</p> <p>Implemented April 2016.</p> | <p>Implemented</p> <p>Contract Management meetings are held quarterly to coincide with the quarterly schedule of works.</p> |

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| Page 198 | post-inspections to be undertaken by BHP were planned, they did not feature any detailed discussion of this so we therefore cannot confirm what number of inspections have been undertaken if any. The minutes also do not indicate that all of the above reports had been produced by the contractor and discussed at the meetings. | basis. Performance management reports should be reviewed by the Contract Manager. | | Agreed. Responsive KPIs are produced for most contracts. Where the contractor is responsible, random audits ensure that contract managers are requesting and receiving KPIs from contractors. Agreed. KPIs to be produced for each contract and monitored at the monthly contract management meetings. | Implemented. Contractor provides quarterly performance reports based on schedule of agreed works for the quarter. Implemented. As above |

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| 13. Page 199 | <p><u>Contract Performance Monitoring</u></p> <p>We noted that the March and June 2015 minutes made reference to the contractor's platform, which the previous Contract Manager had accessed in June 2015. During the audit, the current Contract Manager was not aware of this platform which suggests there have been handover issues relating to contract documentation and information.</p> | <p>A handover process should be defined, documented and disseminated to contract management staff.</p> <p>Senior management should confirm that documentation is handed over in accordance with the handover process prior to an individual leaving the organisation or transferring elsewhere, and evidence of this</p> | 1 | <p>Agreed.</p> <p>Process maps for the planned work process currently being developed and will be documented in BHP quality management system.</p> <p>Agreed.</p> <p>Will be recorded in new filing structure.</p> | <p>Implemented</p> <p>Implemented as part of General contract management procedures across BHP.</p> <p>Implemented</p> <p>As above</p> |

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| Page 200 | | should be retained. The Contract Manager for the Fire Servicing, Maintenance and Responsive Repairs contract should request access to the contractor's systems. | | Agreed. Completed April 2016. | Implemented As above. |
| 14. | <u>Contract Performance Monitoring</u> Furthermore, examination of BHP's systems identified that Contract Managers do not use a set file/directory structure, easily identifiable directory or file names or an electronic filing system promoting the timely retention of contractual documentation. | A defined file/directory structure and filing process for the purposes of contract management should be set-up. Contract Managers should be instructed to comply with the | 1 | Agreed. Standard filing structure for all contracts to be set up in Property Services shared folder and documented in quality management system. | Implemented. Confirmed by review of filing structure on shared drive. |

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| Page 201 | | defined file/directory structure going forward. | | Agreed. Standard filing system will be mandatory for all contracts. | Implemented. As above. |
| | | Directories pertaining to contract management should be held in a centrally available location. | | Agreed. Will be included in new filing system (see above). | Implemented. As above. |
| | | Contract Managers should be reminded to file contract management documentation in a timely manner. | | Agreed – use of new system will be mandatory (see above). | Implemented. As above. |
| | | Senior management should perform a regular spot-check to confirm that Contract Managers are complying with the directory structure and filing process. | | Agreed. Will be implemented with new system. | Implemented. As above. |

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| 15. Page 202 | <p><u>Contract Performance Monitoring</u></p> <p>In addition to this, prior to the audit we were informed that a particular individual was the Contract Manager for the Fire Servicing, Maintenance and Responsive Repairs contract. During the audit, we were informed by the individual that they were not the Contract Manager, and that no formal re-allocation of responsibility had occurred. When we sought further confirmation, we were informed by the Head of the Service that the individual initially informed to us as the Contract Manager, was indeed the Contract Manager. This indicates that the contract management structure and responsibilities are not formally</p> | <p>The contract management structure should be formally documented with designated Contract Managers assigned to every contract.</p> <p>The contract management structure should be agreed in consultation with staff who are to be responsible for undertaking contract management activities.</p> | 1 | <p>Agreed.</p> <p>Property Services have been temporarily restructured as at 31st April 2016, with clear lines of responsibility, this is being reinforced through 121 and a future review of JDs, In addition additional staff with complimentary skill sets are being recruited.</p> <p>Agreed.</p> <p>Implemented as part of the restructure of Property Services.</p> | <p>Implemented. Addressed as part of restructure of Property Services in 2015. A new Property Services Unit was set up – (split between Maintenance & Compliance).</p> <p>Implemented. As above.</p> |

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| Page 203 | documented or that individuals are being allocated responsibilities without discussion. | | | | |
| 203 | <p><u>Contract Performance Monitoring</u></p> <p>We requested confirmation as to whether Contract Managers feed-back contractual issues to senior management, and we were informed by the Contract Manager that no such process is in place at BHP.</p> | <p>A process for reporting contract management information to senior management should be defined and disseminated to Contract Managers.</p> <p>Senior management should review summary reports on a regular basis and scrutinise contract management activity to ensure value-for-money is being achieved.</p> | 1 | <p>Agreed.</p> <p>Completed April 2016.</p> <p>Agreed.</p> <p>To be implemented May 2016.</p> | <p>Implemented.</p> <p>Implemented as part of General contract monitoring procedures across BHP. Verified by review of procedures.</p> <p>Implemented.</p> <p>As above.</p> |

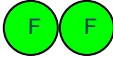



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| Level of assurance | |
|---|---|
| Full  Page 205 | There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied. |
| Substantial  | While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk. |
| Limited  | Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk. |
| None/Nil  | Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse. |

***Follow up testing approach was reliant on the priority rating of the original finding:**

- Priority 1 and Priority 2 finding – retested
- Low priority finding – self certification

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| Topic / Date | 20-Mar-17 | 26-Jun-17 | 20-Sep-17 | 10-Jan-18 | 20-Mar-18 | Jun-18 | Sep-18 | Jan-19 | Mar-19 |
|---|-----------|-----------|-----------|-----------|-----------|--------|--------|--------|--------|
| Internal Audit & Investigations | | | | | | | | | |
| Internal Audit Annual Report, including Annual Head of Audit Opinion | | X | | | | X | | | |
| Review Internal Audit Charter | X | | | | X | | | | X |
| Internal Audit anmd Investigations Progress Report | X | X | X | X | X | X | X | X | X |
| Draft Internal Audit Strategy & Annual Plan | X | | | | X | | | | X |
| Draft Fraud Strategy & Plan | X | | | | X | | | | X |
| Preparation for Peer Review (self-assessment; plan; peer review) | | | X | X | X | | | | |
| External Audit (KPMG) | | | | | | | | | |
| External Audit progress report | | X | X | X | X | X | X | X | X |
| External Audit plan | X | | | | X | | | | X |
| *KPMG - Certification of grants and returns - as and when - depends what KPMG are required to audit | | | | | X | | | | |
| Statement of Accounts & External Auditor's Report | | | X | | X | | x | | |
| KPMG Annual Audit Letter | | | | X | | | | X | |
| Appointment of External Auditors | | | X | | | | | | |
| Financial Reporting | | | | | | | | | |
| Treasury Management Mid-term Report | | X | X | | | | X | | |
| Treasury Management Strategy & Annual Investment Strategy | | | | X | | | | X | |
| Draft Statement of Accounts | | X | | | | X | | | |
| Treasury Management Outtrun Report | | X | | | | X | | | |
| *Account & Audit Regulations - only when the regulations change | | | | | | | | | |
| Governance | | | | | | | | | |
| To review the performance and management of I4B Holdings Ltd | | | X | X | | X | | X | |
| Risk Management | | | | | | | | | |
| Risk Management Annual Review, including Risk Management Strategy | | | | X | | | | X | |
| Strategic Risk Register | | X | | X | | X | | X | |
| Audit Committee Effectiveness | | | | | | | | | |
| Review Forward Plan and Action Log | | | X | X | X | X | X | X | X |
| Hold an Annual Private Meeting between Chair oif Audit and Head of Audit and Risk Management | | | | | | | | | |
| Determine and Deliver Training Requirements for Audit Committee Members as Required | | | | | X | | | | X |

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