



## **Audit and Standards Advisory Committee**

**Thursday 26 September 2019 at 6.00 pm**  
Board Rooms 1 & 2 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

### **Membership:**

#### **Members**

Mr Ewart (Chair)

#### **Substitute Members**

#### **Councillors:**

A Choudry (Vice-Chair)  
Donnelly-Jackson  
Hassan  
Long  
Naheerathan  
Nerva  
Kansagra

#### **Councillors:**

S Choudhary, Colacicco, Kabir, Lo and Perrin  
  
Councillors:  
Colwill and Maurice

#### **Independent Members**

Robert Cawley  
Karen McArthur  
Margaret Bruce

#### **Independent Advisor**

Vineeta Manchanda

**For further information contact:** Kunwar Khan, Governance Officer  
Tel: 020 8937 2037; Email: [Kunwar.Khan@brent.gov.uk](mailto:Kunwar.Khan@brent.gov.uk)

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:  
[www.brent.gov.uk/committees](http://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 significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then 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 any other financial benefit in respect of 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 of a 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 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 is the subject of a registrable personal interest.

# Agenda

Introductions, if appropriate.

**Item** **Page**

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

**2 Declarations of Interest**

Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal 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 67.

**4 Minutes of the previous meeting** 1 - 10

To approve the minutes of the Audit and Standards Advisory Committee meeting held on 10 July 2019 as a correct record.

**5 Matters arising (if any)**

To consider any matters arising from the minutes of the previous meeting.

**Standards Items:**

**There are no Standards items to be considered at this meeting.**

**Audit Items:**

**6 i4B and FWH accounts assurance-testing and the Council's audit process** 11 - 48

The Committee at its last meeting on 10 July requested an update report about assurance-testing and the Council's audit process concerning i4B and FWH accounts. This report provides update to the Committee about:

- the progress of FWH and i4B company audits; and
- the proposed new tender and schedule for next year's audit.

**Wards Affected:** All wards  
**Contact Officer:** Minesh Patel  
Director of Finance  
Email: [Minesh.Patel@brent.gov.uk](mailto:Minesh.Patel@brent.gov.uk)  
Tel: 020 8937 4043

**7 Additional Audit Fees 49 - 52**

The report provides a brief note on the additional audit fee for KPMG on the objections and also Grant Thornton's request.

**Wards Affected:** All wards  
**Contact Officer:** Minesh Patel  
Director of Finance  
Email: [Minesh.Patel@brent.gov.uk](mailto:Minesh.Patel@brent.gov.uk)  
Tel: 020 8937 4043

**8 To review performance & management of i4B Holdings Ltd 53 - 80**

The Audit and Standards Advisory Committee has been provided with a report from i4B Holdings Limited (i4B), with the Council as its shareholder.

**Wards Affected:** All wards  
**Contact person:** Martin Smith, Chair of i4B Board

**9 To review performance & management of First Wave Housing Ltd 81 - 92**

The Audit and Standards Advisory Committee has been provided with an update report from First Wave Housing Limited (FWH), with the Council as its guarantor.

**Wards Affected:** All wards  
**Contact person:** Martin Smith, Chair of FWH Board

**10 Internal Audit Progress Report 93 - 102**

The report provides update on the progress against the Internal Audit Plan between 1 April and 31 August 2019.

**Wards Affected:** All wards  
**Contact Officer:** Michael Bradley  
Head of Audit and Investigations  
Email: [Michael.Bradley@brent.gov.uk](mailto:Michael.Bradley@brent.gov.uk)  
Tel: 0208 937 6526

**11 Counter Fraud Progress Report 103 - 110**

The report provides an update on counter fraud work undertaken this financial year until 31 August 2019.

**Wards Affected:**  
All wards

**Contact Officer:** Michael Bradley  
Head of Audit and Investigations  
Email: [Michael.Bradley@brent.gov.uk](mailto:Michael.Bradley@brent.gov.uk)  
Tel: 0208 937 6526

## 12 Strategic Risk Register Update

111 -  
124

This report provides an updated version of the Corporate Risk Register. In accordance with the terms of reference for the Audit and Standards Advisory Committee, the report is presented to 'enable the Committee to monitor the effective development and operation of risk management and corporate governance in the Council.'

**Wards Affected:**  
All wards

**Contact Officer:** Michael Bradley  
Head of Audit and Investigations  
Email: [Michael.Bradley@brent.gov.uk](mailto:Michael.Bradley@brent.gov.uk)  
Tel: 0208 937 6526

## 13 Treasury Management Mid-term Report

125 -  
134

The report updates Members on recent treasury activity.

**Ward Affected:**  
All wards

**Contact Officer:** Daniel Omisore  
Head of Finance, Resources  
Email: [Daniel.Omisore@brent.gov.uk](mailto:Daniel.Omisore@brent.gov.uk)  
Tel: 020 8937 3057

## 14 The Annual Audit Letter

135 -  
150

The Council's external auditors, Grant Thornton, produced a report following completion of the audit of accounts and an Annual Audit Letter. The letter is intended to identify any changes to the accounts, unadjusted misstatements or material weaknesses in controls identified during the audit work. It also provides the findings from the value for money conclusion for the year.

**Wards Affected:**  
All wards

**Contact Officer:** Minesh Patel  
Director of Finance  
Email: [Minesh.Patel@brent.gov.uk](mailto:Minesh.Patel@brent.gov.uk)  
Tel: 020 8937 4043

## 15 External Audit Progress Report and Sector Update

151 -  
164

The paper provides the Audit and Standards Advisory Committee with a report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors. It also includes a summary of emerging national issues and developments that may be relevant to Brent as a local authority.

**Wards Affected:**

All wards

**Contract person:**

Sophia Brown, Engagement Manager

Grant Thornton

Email: [Sophia.Y.Brown@uk.gt.com](mailto:Sophia.Y.Brown@uk.gt.com)

Tel: 020 7728 3179

**16 Update on review the performance of the Committee (self-assessment) 165 - 168**

This report provides an update about the effectiveness of the Audit and Standards Advisory Committee (ASAC) following the training workshop held after the previous meeting facilitated by a CIPFA trainer.

**Wards Affected:**

All wards

**Contact Officer:** Michael Bradley

Head of Audit and Investigations

Email: [Michael.Bradley@brent.gov.uk](mailto:Michael.Bradley@brent.gov.uk)

Tel: 020 8937 6526

**17 Review the Committee's Forward Plan 169 - 170**

To note the Committee's Forward Plan and agree a draft agenda items for the next meeting.

**Wards Affected:**

All wards

**Contact officer:** Kunwar Khan

Governance Officer

Email: [Kunwar.Khan@brent.gov.uk](mailto:Kunwar.Khan@brent.gov.uk)

Tel: 02089372037

**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 60.

**Date of the next meeting: Monday 20 January 2020**



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.



## MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE Wednesday 10 July 2019 at 6.00 pm

**Present:** David Ewart (Independent Chair), Councillor A Choudry (Vice-Chair),  
Councillors Donnelly-Jackson, Hassan, Long, Nerva.

Independent (co-opted) Members: Margaret Bruce  
Independent Advisor: Vineeta Manchanda

**Also Present:** Councillor Margaret McLennan (Deputy Leader and Lead Member for Resources)

### 1. **Apologies for absence and clarification of alternate Members**

The following apologies for absence were received:

- Councillor Naheerathan (Member of the Committee)
- Dr Rob Cawley (Independent co-opted Member)
- Karen McArthur (Independent co-opted Member)
- Nigel Shock (Independent Person)

### 2. **Declarations of Interest**

In relation to item 6, Quarterly update on Gifts and Hospitality (including mandatory training attendance record), Debra Norman (Director of Legal, HR, Audit & Investigations, Brent Council) advised that any Member present named in the report should consider declaring an appropriate interest.

Councillors Donnelly-Jackson, Hassan and Nerva declared personal interests about training attendance record. Councillor Nerva added that that the report was relevant to all Members in general.

### 3. **Deputations (if any)**

There were no deputations.

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

**RESOLVED** that the minutes of the Audit and Standards Advisory Committee (ASAC) held on Wednesday 20 March 2019 be approved as an accurate record.

### 5. **Matters arising**

#### **Minute 5 (20 March 2019, ASAC): Lender Option Borrower Option Loans (LOBO)\***

Minesh Patel (Interim Director of Finance, Brent Council) advised that a further update had been received from KPMG (the Council's previous auditors) concerning the previous objection raised on the Council's Accounts. It was anticipated that following the conclusion of a 21-day appeal period, towards the end of July, the completion certificate would be available.

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\* The Committee received a LOBO briefing note prior to its last meeting.

## 6. Quarterly update on Gifts, Hospitality and Mandatory Training

Biancia Robinson (Senior Constitutional & Governance Lawyer, Brent Council) introduced the update paper on Gifts and Hospitality registered by Members, together with, mandatory training record.

In considering the update, the Audit and Standards Advisory Committee noted the following points:

- Members were required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50. This included a series of gifts and hospitality from the same person that added up to an estimated value of at least £50 in a municipal year;
- Gifts and hospitality received by Members were published on the Council's website and open to inspection at Brent Civic Centre;
- Appendix 1 of the report which set out the gifts and hospitality registered by Members in the period between 22 February to 25 June 2019; and
- Hospitality accepted by the Mayor in her/his civic role was also recorded separately and published on the Council's website.

The Committee's attention was drawn to the section of the report concerning the attendance record for Members regarding mandatory training sessions. During the update, the following points were noted:

- It was a requirement of the Brent Members' Code of Conduct that all members "must attend mandatory training sessions on this Code or Members' standards in general, and under the Planning Code of Practice and Licensing Code of Practice";
- Since May 2018, all internal training sessions attended by Members were published on the Council's website and individual Member profile pages;
- There were four mandatory training sessions provided for all Members as identified in Table 1 of the report. Five mandatory sessions were provided for Committee Members and, where appropriate, co-opted members. These sessions were provided annually and all committee members and substitutes were required to attend the relevant session(s);
- Appendix B provided a summary of the Members non-attendance record at training sessions;
- That in the case of Planning and Licensing Committee membership, the Adoption and Permanency and the Fostering Panels, no special responsibility allowance could be received under the Members' Allowances Scheme if the relevant mandatory training had not been attended; and
- The regular gifts and hospitality report to include an update on mandatory training as it was deemed to be a useful and effective monitoring process.

The Chair requested that officers and also the leadership of the Political Groups on the Council explore further opportunities to highlight the importance of attending training sessions, particularly the mandatory training.

The Committee thanked Bianca Robinson and Thomas Cattermole (Head of Executive & Member Services, Brent Council) for their work.

**RESOLVED** that the Audit and Standards Advisory Committee note the contents of the report and ask the Brent Council's Director of Legal, HR, Audit & Investigations to consider what further steps could be undertaken to improve the attendance record for Members about mandatory training sessions.

## 7. Internal Audit Annual Report 2018/19

Michael Bradley (Head of Audit and Investigations, Brent Council) introduced the report which presented a summary of the Internal Audit work undertaken during the year. The report included an opinion of the overall adequacy and effectiveness of the Council's internal controls and commented on follow up reviews as required by the Accounts and Audit Regulations 2015, taking into account the Public Sector Internal Audit Standards (PSIAS).

In considering the report, the Committee noted the following key points:

- There was a clear oversight of the risk management process and a range of significant risks for the authority had been identified and were being managed;
- There had been an improvement in 2017/18 in the percentage of 'Substantial' and 'Reasonable' opinions - from 28% in 2014/15 to 20% in 2018/19;
- The proportion of systems receiving 'Limited' or 'No' opinions (one audit conclusion of 'No' assurance) had reduced;
- Where weaknesses had been identified within internal audit reports and investigations, these had been accepted and actions agreed by management. The framework for governance was set out in the annual governance statement describing the Council's governance arrangements;
- Michael Bradley directed the Committee's attention to the controls in place for the areas reviewed which were found to be satisfactory and effective. He added that further details on the audits resulting in a 'Limited' or 'No' Assurance opinion could be found in Appendix A of the report;
- The high risk issues with a 'Reasonable' opinion were listed in Appendix B of the report;
- The audit plan was directed at areas of inherent risk and/or where concern had been raised by management which could have an impact on the overall assurance picture;
- The level of assurance had improved and there was a need to keep up the momentum about the audits resulting in follow-up reviews highlighted in Appendix C of the report, particularly in a 'Limited' or 'No' Assurance areas;
- Information on the key issues raised and overall conclusions were detailed in Appendix D of the report. For the two audit reviews (Property Asset Register and Leopold Primary) which resulted in 'No Assurance' outcomes management had developed clear action plans (Key findings in Appendix A of the report) based on the recommendations which included responsible officers and timescales; and
- Property Risk Register was going to be presented to the Council's Corporate Management Team.

The Committee thanked Michael Bradley and his Internal Audit and Investigations Team for their work.

**RESOLVED** that the contents of the Internal Audit Annual Report 2018/19 be noted.

## 8. Treasury Management Out-turn Report 2018/19

Daniel Omisore (Head of Finance, Brent Council) introduced the paper updating the Committee on Treasury Management activity over the last financial year and provided information on the Council's current level of investments and borrowing as well as the key national economic indicators.

The Council had complied with its relevant Prudential Indicators for 2018/19, which were approved by the Council on 26 February 2018 as part of the Council's Treasury Management Strategy Statement. In accordance with the requirements of the CIPFA Code of Practice, the report provided members with a summary of the treasury management activity during 2018/19. It reported that none of the Prudential Indicators had been breached. Furthermore, a judicious approach had been taken about investment activity with priority being given to security and liquidity over yield.

Some of the key factors impacting upon the Council's treasury management, investment and borrowing were highlighted as follows:

- UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% compared to last year, which was just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report.
- The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record.
- The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continued to rise steadily and provided some upward pressure on general inflation. Once adjusted for inflation, real wages were up by 1.4%. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services affected overall activity.
- Annual GDP growth at 1.4% continued to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy had since been announced.

In considering the report, the Committee noted the following key points:

- Amidst the aforementioned economic backdrop, the Council had borrowed money over the long term to support investment in the Council's infrastructure and also invested cash balances held for short periods. It was therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks were central to the Council's treasury management strategy;
- Debt and Investment Portfolio Position as at 31 March 2019 were set out in Appendix 1 and Prudential Indicators were set out in Appendix 2 of the report;
- Concerning a query about Authorised Limit and Operational Boundary for External Debt, it was noted that it was based on the Council's estimate of most likely - i.e. prudent - but not a worst-case scenario for external debt. It linked directly to the Council's estimates of capital expenditure, the capital financing requirement, cash flow requirements and was a key management tool for in-year monitoring;
- The authorised limit provided financial headroom over and above the operational boundary for unusual cash movements. The total Actual External Debt was £385.8m, Authorised Limit stood at £1,000m and the Operational

Boundary was £900m and there were no breaches to the Authorised Limit and the Operational Boundary during 2018/19; and

- The risk appetite, borrowing and investments models were guided by expert advice.

The Committee thanked Daniel Omisore for his work and a well-written report on a technical topic.

**RESOLVED** that the Audit and Standards Advisory Committee note the contents of the 2018/19 Treasury Management outturn report and ask it to be forwarded to the Council, in compliance with CIPFA's Code of Practice on Treasury Management.

## 9. **Statement of Accounts 18/19 and the External Auditor's Audit Findings Reports**

The Chair provided a background to the reason why the publication of the Draft Statement of Accounts 2017/18 had been delayed. He reminded Members that this was the earliest the Council's accounts had been completed, by 10 July (the previous deadlines had been 30 September initially and the 31 July last year).

It was further noted that a draft Statement of Accounts had been published on the Council's website on the 24 May (a week before the deadline required by statutory regulation) and updated versions of accounts as well as the External Auditor's Reports to those charged with governance (the ISA260 report) had been circulated prior to the meeting.

Sophia Brown and Paul Dossett (Grant Thornton) talked to their Audit Findings Reports about the Council as detailed in Appendix 9c and also about Brent Pension Fund as set out in Appendix 9d of the report. In considering the report, some of the following key points and comments were noted:

- The Group and Councils' financial statements provided a true and fair view of the financial position of the Group and Council and their income and expenditure for the year. These had been properly prepared as per the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared following the Local Audit and Accountability Act 2014;
- Four adjustments, as detailed in Appendix B of the report (financial statements) had resulted in a £96.4m adjustment to the Council's Comprehensive Income and Expenditure Statement which did not impact on the General Fund position;
- Recommendations for management as a result of the audit work were detailed in Appendix A of the report;
- There were no matters that would require modification of the audit opinion - Appendix D or material changes to the financial statements - subject to the updates to the seven highlighted matters requiring attention;
- Other information to be published with the financial statements was consistent with the Auditor's knowledge of the organisation and the financial statements;
- The Auditor completed their risk-based review of the Council's value for money arrangements and concluded that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- An unqualified value for money conclusion was anticipated, as detailed in Appendix D with findings summarised on pages 22-25;
- Following controls testing of the Council's accounts payable system, substantive testing on significant transactions and material account balances, including the procedures outlined in the report about the key audit risks, the

Auditor not had to alter or change their audit plan, which remained as communicated on 5 February;

- In response to a query about assurance-testing of the subsidiary accounts for invest 4 Brent (i4B) and First Wave Housing (FWH), the Auditor advised that the evaluation of the components of the group was based on a measure of 'materiality' considering each as a percentage of the group's gross revenue expenditure to assess the significance of each component and to determine the planned audit response. From this evaluation, it was determined that 'analytical reviews' were required as part of the audit of the London Borough of Brent for i4B and FWH;
- The concept of materiality was fundamental to the preparation of the financial statements and the audit process. It applied not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law;
- In response to a query, it was clarified that for the audit findings report about the Council, the 'materiality' figures were: £20m for financial statements, £15m for performance. Items below £1m were considered "trivial" by the definitions used for external audit;
- Financials statements were highlighted on page 5, internal controls were detailed on page 18 and value for money comments listed on page 20. Appendices A to D of the Auditor's Findings Report about the Council provided Action plan, Audit adjustments, Fees and Audit Opinions for the perusal of the Committee;
- Paul Dossett informed that additional fee/charge would be applied for, by Grant Thornton to the Council due to a revised calculation and work resulting from the McCloud judgement, e.g. about actuaries and other relevant work;
- The summary concluded that the substantial audit of the Council's financial statements had been completed and subject to relevant outstanding queries being resolved, an unqualified audit opinion following the Audit and Standards Committee approval, as detailed in Appendix D, would be issued;
- In response to a query about reserves, the Committee noted: the challenging national economic landscape and decreased Local Government financial settlements, the need for the appropriate risk governance procedures. The Council's financial controls had been robust and the Council had not overspent in the previous many years but there were competing demands and priorities - there was a need to ensure long term and sustainable return on contributions received by the Council as result of housing developments (S106 and CIL);
- In considering the Audit findings for Brent Pension Fund, the Committee noted that, in summary, there were no adjustments to the financial statements that have had an impact on the Pension Fund's reported financial position;
- Brent Pension Fund Audit adjustments and misclassification disclosure changes were detailed in Appendix B of the report;
- Significant findings of the Brent Pension Fund and audit risks were provided on pages 5 to 9 of Appendix 9d. The follow up of recommendations from the prior year's audit was detailed in Appendix A of the report; and
- There were no matters that would require modification of the audit opinion about the Brent Pension Fund as detailed in Appendix C of the report.

Minesh Patel (Interim Director of Finance, Brent Council) and Benjamin Ainsworth (Head of Finance, Brent Council) introduced the Draft Statement of Accounts 2017/18.

The Council's External Auditor, Grant Thornton, produced their reports as part of their audit of the accounts. The report was intended to identify any changes to the accounts,

unadjusted mis-statements or material weaknesses in controls identified during the audit work.

During the update the following key comments were noted:

- Grant Thornton had substantially completed the audit of the 2018/19 accounts and their ISA260 report, reflecting the current position with anticipated unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion;
- The tighter timescale this year had required the Council to both shorten its processes and make more use of estimation to produce the accounts on time. As might be expected in the first year of an accelerated timetable to close the accounts, there were a number of recommendations from Grant Thornton about how the process could be improved in future years. Officers would be putting these recommendations into effect with a revised plan for closing the 2019/20 accounts. As a result, some adjustments to the accounts had been agreed by council officers and Grant Thornton and work was underway;
- There was positive progress about the certification of the prior year accounts for 2017/18, 2017/16 and 2015/16 by the predecessor auditor, KPMG. It was anticipated that the following conclusion of a 21-day appeal period towards the end of July, the completion certificate would be available;
- There had been some adjustments to the Statement of Accounts during the audit however none of these had impacted on the medium-term financial position of the Council - the General Fund or the Housing Revenue Account;
- The Council was required to publish the 2018/19 accounts by 31 July;
- Once approved by the Audit and Standards Committee, based on the recommendations made by the Council's Audit and Standards Advisory Committee this evening, the statement of accounts would be published on the Council's website;
- Once the audit had been completed Letters of Representation needed to be signed before an audit opinion was issued by the External Auditor;
- Two draft letters, respectively setting out confirmation from the Council regarding the financial statements and information provided as part of the audit process, and about the Brent's Pension Funds, were attached as Appendices 9a and 9b of the report for the Committee's perusal; and
- The Letters of Representation would require two signatures, from the Chair of the Audit and Standards Committee as well as the Interim Director of Finance. The council letter should state London Borough of Brent instead of a generic reference to a governing body.

In discussing i4B and FWH assurance-testing and the Council's audit process, it was felt that it would be useful to tie up any finance recommendations and management responses in an action plan and bring back as an update report to the Committee.

The Chair stated that the Council was in a relatively good position but it must carry on the positive momentum and continue its efforts. The Committee thanked the finance team and the Council's External Auditor, Grant Thornton, for their work despite challenging deadlines.

**RESOLVED** that:

- (i) The contents of the Statement of Account 2018/19, External Auditor's Reports and the corrected audit differences; be noted;

- (ii) The Audit and Standards Committee be recommended to:
  - a. approve the statement of accounts
  - b. approve and sign the letters of representation to Grant Thornton
- (iii) The Letter of Representation titled 'London Borough of Brent Financial Statements for the year ended 31 March 2019' be amended to reflect that London Borough of Brent was the Governing Body;
- (iv) The final Statement of Accounts 2018/19 be circulated to Members after the Chair of the Audit and Standards Committee had signed it; and
- (vi) The Committee's appreciation of the work of Grant Thornton and Brent Council's finance team be formally recorded.

Also, in relation to assurance-testing of i4B and FWH accounts and the Council's audit process, an update report be brought to the Audit and Standards Advisory Committee.

### **Review the performance of the Committee (self-assessment)**

Michael Bradley (Head of Audit and Investigations, Brent Council) introduced the report which presented a summary of the proposed actions arising from the Audit and Standards Advisory Committee's self-assessment workshop conducted on 24th April 2019.

The workshop focused on some of the key elements of an effective Audit Committee as advised by the CIPFA. It also considered the move to combine the functions of the Audit and Standards Committees. The Committee noted that, during the workshop, the following key themes were discussed:

- 'Audit' and 'Standards' Committees working together as one Audit and Standards Advisory Committee (ASAC);
- Promoting the principles of good governance and their application to decision making;
- Supporting the establishment of arrangements for managing risk, including reporting and obtaining assurance;
- Supporting internal audit activity: planning, reporting and recommendation follow up;
- Aiding the achievement of the organisation's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements;
- Achieve better alignment between ASAC and Scrutiny especially on financial matters which could be achieved by synchronising the work programmes of Scrutiny and ASAC with the work of Cabinet (including clarifying the distinction between the roles of ASAC and Scrutiny Committees); and
- ASAC to obtain assurance on Cabinet's challenge to the Corporate Risk Register (CRR).

**RESOLVED** that the contents of the report be noted and an update report be brought back to the Committee.

## **11. Annual Counter Fraud Report**

Michael Bradley (Head of Audit and Investigations, Brent Council) introduced the report which provided an annual summary of the counter fraud work undertaken by

the Internal Audit and Investigations Team for the period 1st April 2018 to 31st March 2019.

In considering the report, the Committee noted the following key points:

- In terms of Internal Fraud, the total referrals of alleged internal fraud for the year were lower than the previous year. This included whistleblowing referrals;
- The Council's proactive work and review of the National Fraud Initiative (NFI) data-match reports were covered in the 'proactive' section of the report. Internal fraud typically had the fewest referrals in any period but it was generally more complex. There had been three new referrals received during Q4, which was a decrease compared with the same period during the previous year (nine cases);
- Concerning Tenancy and Social Housing Fraud, the recovery of social housing properties by the Investigations team had a positive impact upon the temporary accommodation budget and remained a high priority fraud risk area for the Council. The average value of each recovered tenancy was £93,000 per property as reported by the Cabinet Office in 2016;
- External Fraud - all external fraud/irregularity that affected the council (but was not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications - there were 13 open cases, 142 new referrals, 135 closed cases, 20 carried forwards, 12 irregularities, 1 prosecution, 1 caution and 12 cases of overpayments/savings;
- Housing Tenancy remained the highest area of savings for the team;
- Counter Fraud Savings stood at over £1m excluding live cases;
- Two Council Tax proactive counter fraud exercises had concluded in Q3 which involved a review of those receiving Single Person's Discount and Student Discount. The Single Persons Discount review was successful with over 800 cases reviewed and savings of £51,410 identified;
- There had been four Blue Badge enforcement operations led by the team across the borough at known risk areas. This had resulted in 184 badges being checked and 22 badges seized with appropriate cases investigated further for criminal offences. These operations were planned confidentially and incorporated multiple council teams and the Police. A recent operation occurred in June and an update would be provided in the next progress report;
- The overall summary of the successful National Fraud Initiative (NFI) work following 2016 data submission was provided. Additional work on the existing NFI exercise had ceased during Q3. The new data submissions for the NFI 2018/19 exercise was supplied in October and new data matches were generated in Q4. These matches totalled 19,296 covering multiple data reports and were in the process of being reviewed by the team. A report that was recently completed related to deceased person records against live Blue Badges, which had resulted in 277 (of 348) badges being cancelled with a notional value of £159,275. An update of the NFI review would be set out in the next progress report; and
- The team was trialling a pilot, which commenced in April 2019, with Cifas (Credit Industry Fraud Avoidance System) as part of its commitment to anti-fraud. Brent was one of 10 local authority fraud teams to take part. Similarly, the Investigations team was trialling a pilot exercise with the Department for Work and Pensions (DWP), which commenced on 28th January 2019, to jointly investigate suitable cases involving Housing Benefit and Council Tax Support.

The Chair praised the work carried out by the team, particularly the joint-working with relevant experts in the counter fraud area.

**RESOLVED** that the Committee note the contents of the Counter Fraud Annual Report 2018-19

12. **Forward Plan and Agenda items for the next meeting**

The Committee reviewed its Forward Plan and made the following additions:

- In relation to item 10, reviewing the performance of the Audit and Standards Committee (self-assessment), an update be brought back to the next meeting;
- The quarterly gifts and hospitality report to continue to include a section on mandatory training update; and
- i4B and FWH assurance-testing and the Council's audit process - tie up any recommendations and management responses in an action plan and bring back an update report to the Committee.

**RESOLVED** that the Committee note the contents of its Forward Plan.

13. **Any other urgent business**

None.

The meeting closed at 7:58 pm

David Ewart  
Chair

 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 September 2019
	<b>Report from the Director of Finance</b>
<b>First Wave Housing and i4B Audit Progress</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-key
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	2 - I4B and FWH Audit Finding Reports
<b>Background Papers:</b>	None.
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	Allen Fountoukos, Senior Finance Analyst 0208 937 3518, <a href="mailto:Allen.Fountoukos@brent.gov.uk">Allen.Fountoukos@brent.gov.uk</a>

## 1.0 Purpose of the Report

- 1.1 This report provides an update to the audit committee on the progress of First Wave Housing (FWH) and i4B company audits.
- 1.2 To make the Committee aware of the proposed new tender and schedule for next year's audit.

## 2.0 Recommendations

- 2.1 That the Committee note the progress of First Wave Housing and i4B company audits.
- 2.2 That the Committee agree to the proposed new schedule.

## 3.0 Summary

- 3.1 The deadline for FWH for filing audited accounts is 30 September 2019 (six months from the accounting reference date of 31 March 2019). FWH is expected to have filed audited accounts by this deadline.

- 3.2 The deadline for i4B for filing audited accounts is 31 December 2019 (nine months from the accounting reference date of 31 March 2019).
- 3.3 Both company audits have progressed well to date, and have so far provided the required level of assurance for the auditors to provide an unqualified audit opinion. The i4B and FWH boards are responsible for signing off the respective audits for the companies.
- 3.4 Both companies have corrected prior year accounts and detailed these in a prior year adjustment note. The adjustments have been agreed with the auditors and are detailed in the auditor's report.
- 3.5 For the current financial statements (2018/19), a further audit adjustment has been made to the accounts for FWH. This has been agreed with the auditors and Council officers and detailed in the auditor's report.
- 3.6 The auditors report details these adjustments including the nature of the adjustments.
- 3.7 As of writing, there is nothing to suggest that either company will have further audit adjustments.
- 3.8 As of writing, both audits have so far provided the required level of assurance for the auditors to provide an unqualified audit opinion.
- 3.9 The proposed audit plan for next year (2019/20) accounts is to complete the audit of both companies by the 30<sup>th</sup> June. This will provide enough time for financial statements of the companies to be consolidated with the Council's financial statements for group accounting purposes within the Council's statutory deadline.

#### **4.0 Detail – First Wave Housing**

- 4.1 As a result of the audit, two audit adjustments have been made to the First Wave Housing Accounts, one for current year and the other resulting in a prior year adjustment with restated balances. These adjustments result in a movement in reserves from the revenue reserve to the revaluation reserve. For the prior year adjustment, net assets remain unchanged. These adjustments have been agreed by Council officers with Grant Thornton.

The adjustments are shown in section 7 of the auditor's draft report *The Audit Findings for First Wave Housing Limited*.

- 4.2 There are no other significant issues that have been raised by the auditors at the time of writing. The auditors have begun closing procedures and have some remaining tasks to complete, after which a final draft will be produced with audit amendments for sign off.
- 4.3 The auditors (Grant Thornton) will provide a report on the progress and expected result of the FWH audit.

#### **5.0 Detail - i4B**

- 5.1 No significant issues that have been raised by the auditors at the time of writing relating to the i4B accounts. The auditors have begun closing procedures, with

some remaining tasks to complete, after which a final draft will be produced with audit amendments for audit sign off.

- 5.2 The auditors (Grant Thornton) will provide a report on the progress and expected result of the i4B audit.

## **6.0 Financial Implications**

- 6.1 Financial implications are discussed in the body of this report.

## **7.0 Proposal for change of audit schedule for 2019/20 financial year**

- 7.1 The Council proposes to complete the audit of both subsidiaries by the 30<sup>th</sup> June 2020.

- 7.2 To achieve this, the companies will produce draft financial statements by 1 May 2019. The audit will then commence immediately, with the aim of completing audit by 30 June, allowing two months for audit. This falls in line with current expected timeframe for this year's audit (beginning of August to end of September).

- 7.3 The Council will tender for the audit of the companies to be completed in this timeframe. This allows for some contingency going into July. The Council will then consolidate the subsidiary accounts for the group financial statements in line with Council's aim of faster closure and within the statutory deadline.

## **8.0 Legal Implications**

- 8.1 No specific implications.

## **9.0 Equality Implications**

- 9.1 No specific implications.

## **10.0 Consultation with Ward Members and Stakeholders**

- 10.1 Not applicable.

## **11.0 Human Resources**

- 11.1 Not applicable

**Report sign off:**

***Minesh Patel, (Director of Finance)***

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# The Audit Findings for I4B Holdings Limited

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Year Ended 31 March 2019

September 2019

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Dear Sirs

**Audit Findings for I4B Holdings Limited for the year ended 31 March 2019**

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with those charged with governance.

As an auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Joanne Love

Director  
For Grant Thornton UK LLP

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**Chartered Accountants**

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# 1. Status of the audit

**Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.**

## Outstanding information:

- Final review of updated financial statements.
- Completion of fieldwork procedures – none of which is expected to impact on our opinion
- Receipt of signed management representation letter
- Update of going concern and post balance sheet events procedures to the point of signing the financial statements

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- Status
- Likely to result in material adjustment or significant change to disclosures within the financial statements
  - Potential to result in material adjustment or significant change to disclosures within the financial statements
  - Not considered likely to result in material adjustment or change to disclosures within the financial statements

# Audit opinion

**Our anticipated audit report opinion will be unmodified**

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## 2. Audit Findings - Significant Risks

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

### Risks identified in our Audit Plan

### Commentary

1

#### Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

#### Auditor commentary

- We have undertaken the following audit procedures in relation to revenue recognition:
  - Reviewed and tested revenue recognition policies.
  - Performed a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports revenue transactions.
  - For a sample of properties, we have obtained rental agreements and agreed the income recognised to these agreements.

We have not identified any significant issues from the testing we have undertaken.

2

#### Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities

#### Auditor commentary

- We have undertaken the following audit procedures in this area:
  - Reviewed accounting estimates, judgements and decisions made by management.
  - Tested a sample of journals entries.
  - Reviewed unusual significant transactions.

We have not identified any significant issues from the testing we have undertaken.

## 2. Audit Findings - Significant Risks

### Risks identified in our Audit Plan

### Commentary

3

#### Valuation of Investment properties.

Significant judgement is required in the estimation of property valuations and there is a significant risk that these revaluation measurements are not in accordance with accounting standards.

#### Auditor commentary

We have undertaken the following work in relation to this risk:

- Reviewed the valuations of investment properties prepared by your property experts, Wilks Head & Eve (WH&E). The table below summarises the closing valuations and the basis on which the assessment is made. The valuation was reviewed by our own property valuation experts and no issues were identified from their review.
- Considered the reasonableness of the assumptions applied by management and the overall valuation of the properties.
- Reviewed the basis of prior year adjustment (reclassification of all properties to investment properties) and considered whether appropriate and in line with accounting standards. I4B Holdings Limited holds all its housing properties to earn rental and for capital appreciation and therefore, this classification is deemed appropriate.

We have not identified any significant issues from the testing we have undertaken.

### 3. Audit Findings – Other Risks

Other risks are, in the auditor's judgment, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

**Risks identified in our Audit Plan**

**Commentary**

**Creditors and accruals**

- Creditors and accruals have been understated or have not been recorded in the correct period

**Auditor Commentary**

We have undertaken the following audit procedures in relation to expenditure and creditors

- Performed unrecorded liabilities testing through a review of post year-end invoices and payments.
- Performed a substantive analytical review of key expenditure items within the financial statement and completed detailed testing of a sample of expenditure items not tested elsewhere.
- We have obtained confirmation of the year end creditor balance with council and we have tested a sample of external creditors.

There were no significant findings identified from our testing of expenditure, creditors and accruals



### 3. Audit Findings – Other Risks

**Risks identified in our Audit Plan**

**Commentary**

2

**Debt**

Compliance with covenants

**Auditor Commentary**

I4B Holdings Limited has accounted for its loan with Brent Council as a public benefit concessionary loan.

We have confirmed the balance with the Council and recalculated interest payments due. We have also reviewed interest payments and relevant calculations prepared by management to check that it is in accordance with the loan agreements and assessed compliance.

FRS 102 allows public benefit concessionary loan accounting between all entities in a public benefit interest group. Whilst I4B Holdings Limited has classified all its properties as investment properties (i.e. properties are held to generate rental income or capital appreciation or both), it appears reasonable for I4B Holdings Limited to account for its loan with Brent Council as a public benefit concessionary loan.

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## 4. Going concern

Description	Work commentary
<b>Accounts are to be prepared on a going concern basis</b>	<p>The assessment of First Wave Housing Limited's ability to continue as a going concern is a vital part of the accounts approval process. For this reason, both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.</p> <ul style="list-style-type: none"> <li>• We have obtained assessment's assessment of going concern;</li> <li>• Considered the adequacy of disclosures within the financial statements; and .</li> <li>• Reviewed the letter of support which the Council has provided to the company.</li> </ul> <p><i>[We are finalising our procedures in in this area]</i></p>

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570)

## 5. Other communication requirements

1	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit processes.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation will be requested from management.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have received all confirmations from third parties.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>For the financial year ended 31 March 2019, I4B Holdings Limited was entitled to exemption from providing requirements for the narrative report under the Companies Act 2006 (s.414 relating to small companies). I4B has taken advantage of this.</li> </ul>
7	<b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>
8	<b>Other matters</b>	<ul style="list-style-type: none"> <li>As at 31 March 2019, I4B Holdings Limited has accounted for its loan with the London Borough of Brent as a public benefit entity concessionary loan. We challenged management about this, as the accounting policies did not disclose the entity as a Public Benefit Entity (PBE).</li> </ul> <p>FRS 102 defines a Public Benefit Entity (PBE) as: “<i>An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.</i>”</p> <p>Taking into account the activities of both the Company and the Council, this definition would appear to be satisfied. Disclosure has been added to the accounts.</p>

## 6. Internal controls – issues identified in current year

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.

We have not identified any internal control deficiencies during the course of our current year audit that require reporting.

## 7. Misstatements

### Adjusted misstatements

There are no adjusted misstatements identified during the course of the audit that require reporting.

### Unadjusted misstatements

There are no unadjusted misstatements identified during the course of the audit that require reporting.

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## 8. Independence and ethics

### Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

## 9. Fees and non-audit services

The table below sets out the total fees for audit and charged from the beginning of the financial year for the 2019 year end engagements as well as the threats to our independence and safeguards have been applied to mitigate these threats. There were no non audit related services provided to the client.

	<b>Fees £</b>	<b>Threat identified</b>	<b>Safeguards</b>
Audit of I4B Holdings Limited	30,000	None – assurance service	n/a
<b>Total</b>	<b>30,000</b>		

- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to I4B Holdings Limited.
- The fees reconcile to the financial statements.

# 10. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.
Confirmation of independence and objectivity	•	•	<p data-bbox="1144 596 1447 619"><b>Respective responsibilities</b></p> <p data-bbox="1144 635 2163 711">As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.</p> <p data-bbox="1144 727 2163 788">The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	<p data-bbox="1144 836 1599 858"><b>Distribution of this Audit Findings report</b></p> <p data-bbox="1144 874 2163 1008">Whilst we seek to <b>ensure</b> our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.</p>
Significant matters in relation to going concern	•	•	
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•	
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•	
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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# The Audit Findings for First Wave Housing Limited

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Year Ended 31<sup>st</sup> March 2019

September 2019

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Dear Sirs

**Audit Findings for First Wave Housing Limited for the year ended 31 March 2019**

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with those charged with governance.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Joanne Love

Director  
For Grant Thornton UK LLP

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**Chartered Accountants**

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# 1. Status of the audit

**Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.**

Outstanding information:

- Final review of updated financial statements.
- Completion of fieldwork procedures – none of which is expected to impact on our opinion.
- Receipt of signed management representation letter
- Update of going concern and post balance sheet events procedures to the point of signing the financial statements

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- Status
- Likely to result in material adjustment or significant change to disclosures within the financial statements
  - Potential to result in material adjustment or significant change to disclosures within the financial statements
  - Not considered likely to result in material adjustment or change to disclosures within the financial statements

## Audit opinion

**Our anticipated audit report opinion will be unmodified**

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## 2. Audit Findings - Significant Risks

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

### Risks identified in our Audit Plan

### Commentary

1

#### Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue

#### Auditor commentary

- We have undertaken the following audit procedures in relation to revenue recognition:
  - Reviewed and tested revenue recognition policies.
  - Performed a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports revenue transactions.
  - Performed substantive analytical review:
    - Performed a predictive estimate of social housing rental income using prior year revenue and reflecting changes in property numbers and annual rent decreases.
    - Estimated annual rental income using weekly rent debits.
  - For a sample of new tenancies, agreed rental income to supporting rent agreements.
  - Reviewed rental income from market rented properties and tested a sample to rental agreements.

We have not identified any significant issues from the testing we have undertaken.

2

#### Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities

#### Auditor commentary

- We have undertaken the following audit procedures in this area:
  - Reviewed accounting estimates, judgements and decisions made by management.
  - Tested a sample of journals entries.
  - Reviewed unusual significant transactions.

We have not identified any significant issues from the testing we have undertaken.

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## 2. Audit Findings - Significant Risks

### Risks identified in our Audit Plan

### Commentary

3

#### Valuation of housing and Investment properties.

Significant judgement is required in the estimation of property valuations and there is a significant risk that these revaluation measurements are not in accordance with accounting standards.

#### Auditor Commentary

We have undertaken the following work in relation to this risk :

- reviewed the valuations prepared by your property expert, Jones Lang LaSalle Ltd (JLL). The table below summarises the closing valuations and the basis on which the assessment is made. The valuation was reviewed by our own property valuation experts and no issues were identified from their review. Our testing did not identify any material misstatement
- Reviewed adjustments posted to the financial statements. An adjustment has been identified and posted by management in relation to the depreciation charge for the year. This also impacts the revaluation gain for the year. Refer to page 7 for further commentary on this.

No other matters have been noted from the work performed.

Type of Property	Valuation Basis	Value as at 31 March 2019	Commentary
Investment Properties	Market Value	£12,070,000	Investment properties are held to earn rental and for capital appreciation or both and it is required to be revalued to its fair value at each reporting date.  We consider a market value basis to be the appropriate valuation basis.
Social Housing	Existing Use Value Social Housing "EUV-SH"	£48,610,000	A property which is held for social benefit is not classified as investment property, however an accounting policy to account for these properties at valuation has been adopted by the company. The basis of valuation used throughout the sector is "EUV-SH" which measures future cashflows rather than an open market value reflecting their intended use.

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### 3. Audit Findings – Other Risks

Other risks are, in the auditor's judgment, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

**Risks identified in our Audit Plan**

**Commentary**

- 1 Housing properties**
  - Housing property activity is not valid
  - Housing property depreciation is misstated

**Auditor Commentary**

We have performed the following in respect of housing properties:

- Verified the existence and confirmed the ownership of a sample of properties to land registry documentation.
- The Statement of Recommended Practice (SORP) which is applied by the company requires the application of component accounting. That is a property should not be considered as a single asset but split between its material components. i.e. land, structure, roof, kitchen, bathroom, etc. Management undertook an exercise sometime ago and determined that the impact of not applying such a policy was not material to the financial statements. We have audited management's assessment for the current year and whilst we concur that the impact is not material in the current year, we have raised a control recommendation on page 11 to update the assessment with a view to fully applying component accounting from 2019/20 year onwards. Overtime, the cumulative impact will become material.
- Tested a sample of additions and verified amounts capitalised in the year to supporting documentation on a sample basis. We have also ensure that the sampled expenditure meets the requirements of the Statement of Recommended Practice ('SORP'), accounting standards and the entity's stated accounting policies and the Financial Reporting Standard ("FRS 102").
- The depreciation charge for the year had not been accounted for correctly as the revaluation gain was used to offset it. The effect of this was that the surplus for the year was reduced by £537K after putting the current year depreciation charge through the statement of comprehensive income. This also resulted in a prior year adjustment. The prior year surplus reduced by £527k. The adjustments for both the current and prior year have been shown on page 13.

Our testing of the above procedures did not identify any material misstatement apart from that identified with the accounting for depreciation.

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### 3. Audit Findings – Other Risks

**Risks identified in our Audit Plan**

**Commentary**

**2 Expenditure , creditors and accruals**

- Expenditure, creditors and accruals have been understated or have not been recorded in the correct period

**Auditor Commentary**

We have undertaken the following audit procedures in relation to expenditure and creditors

- Performed a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports expenditure.
- Performed unrecorded liabilities testing through a review of post year-end invoices and payments.
- Performed a substantive analytical review of key expenditure items within the financial statement and completed detailed testing of a sample of expenditure items not tested elsewhere.
- We have obtained confirmation of the year end creditor balance with council and we have tested a sample of external creditors.

There were no significant findings identified from our testing of expenditure, creditors and accruals

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**3 Debt**

Compliance with covenants

**Auditor Commentary**

First Wave Housing Limited has loans with the Council for the acquisition of properties.

- We have confirmed the balance of the loans the company has with the council.
- We have reviewed the loan agreements for any covenants and checked that there has not been a breach of any covenants in this financial year. The loan facilities are payable in 30 annual fixed instalments.
- We have checked the payments made in the year are in line with the loan agreement and checked the relevant calculations prepared by management to support the payments.

We have not identified any significant issues from the testing we have undertaken.

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## 4. Going concern

Description	Work commentary
<b>Accounts are to be prepared on a going concern basis</b>	<p>The assessment of First Wave Housing Limited's ability to continue as a going concern is a vital part of the accounts approval process. For this reason, both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.</p> <ul style="list-style-type: none"> <li>• We have obtained assessment's assessment of going concern;</li> <li>• Considered the adequacy of disclosures within the financial statements; and .</li> <li>• Reviewed the letter of support which the Council has provided to the company.</li> </ul> <p><i>[We are finalising our procedures in in this area]</i></p>

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570)

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## 5. Other communication requirements

1	Issue	Commentary
	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit processes.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation will be requested from management.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have received all confirmations from third parties.</li> </ul>
6	<b>Disclosures</b>	<p>Our review found that some disclosures which are required by the Statement of Recommended Practice and Accounts Direction had been omitted in the draft financial statements. The disclosures omitted were:</p> <ul style="list-style-type: none"> <li>Value for Money disclosure</li> <li>Statement of compliance with the governance and viability standard.</li> </ul> <p>Both the strategic report and the directors' reports in the draft financial statement had to be improved ; The risk section of the strategic report did not include specific risks and there was no narrative of key Performance indicators and the Director's report did not include all the required disclosures.</p> <p>The financial statements have been updated to include the above disclosures following our review and recommendation.</p>
7	<b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>
8	<b>Other matters</b>	<ul style="list-style-type: none"> <li>No other matters identified.</li> </ul>

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## 6. Internal controls – issues identified in current year

Assessment	Issue and risk	Recommendations
1 ●	<p><b>Monthly reconciliations of Cash in transit account</b></p> <p>During our testing of Cash and Cash Equivalents , we noted that the cash in transit account is used as a control account however it is not being cleared down periodically and as such the balance on this account continually increased until October 2018 when Brent Housing Partnership was wound down.</p> <p>At the level of the financial statements, this has had nil impact, as both these subjective codes are summarized as “Cash and cash equivalents however the cash in transit balance has remained static since 2018.</p>	<ul style="list-style-type: none"> <li>We recommend that this account is cleared down regularly to show the actual cash in transit balance instead of the large balance it currently show,</li> </ul> <p><b>Management response</b></p>
2 ●	<p><b>Application of Component Accounting</b></p> <p>As noted above, the company has not been applying component accounting in respect of its housing properties, as required by the SORP.</p>	<ul style="list-style-type: none"> <li>We recommend that management undertake a full review to identify individual components and to depreciate these over their useful economic lives.</li> </ul> <p><b>Management response</b></p>

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**Assessment**  
 ● Significant deficiency – risk of significant misstatement  
 ● Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

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## 7. Adjusted misstatements

The following table sets out the details of adjusted misstatements in the current year relating to the accounting for depreciation

Description	Statement of Comprehensive income		Balance sheet		Surplus Effect £000
	Debit	Credit	Debit	Credit	
	£000	£000	£000	£000	
Dr Depreciation (P&L)	537				(537)
Cr Revaluation reserve		537			
Being the depreciation in year					

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## 7. Adjusted misstatements

The following table shows the prior year adjustment relating to the accounting for depreciation.

Description	Statement of Comprehensive		Balance sheet		
	Debit	Credit	Debit	Credit	Surplus Effect
	£000	£000	£000	£000	£000
Dr Depreciation charge	527				(527)
Cr Revaluation reserve		527			
Being the prior year adjustment to reflect the prior year depreciation charge					

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## 8. Unadjusted Misstatements

There were no unadjusted misstatements

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## 8. Independence and ethics

### Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

## 9. Fees and non-audit services

The table below sets out the total fees for audit and charged from the beginning of the financial year for the 2019 year end engagements as well as the threats to our independence and safeguards have been applied to mitigate these threats. There were no non audit related services provided to the client.

	<b>Fees £</b>	<b>Threat identified</b>	<b>Safeguards</b>
Audit of First Wave Housing Limited	25,000	None – assurance service	n/a
<b>Total</b>	<b>25,000</b>		

- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to First Wave Housing Limited. We did not identify any non-audit services .
- The fees reconcile to the financial statements.

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This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

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# 10. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.



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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 September 2019
	<b>Report from the Director of Finance</b>
<b>Note on Additional Audit Fees 2019-20</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-key
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	
<b>No. of Appendices:</b>	N/A
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	Ben Ainsworth Head of Finance Email: <a href="mailto:Benjamin.ainsworth@brent.gov.uk">Benjamin.ainsworth@brent.gov.uk</a> Tel: 020 8937 1731

## 1.0 Purpose of the Report

- 1.1 Prior to 2018/19, the council's external auditors were KPMG who had been appointed by the audit commission (following closure of the Audit Commission the contract was novated to Public Sector Audit Appointments (PSAA)). This contract reduced costs to the council: as a result of this appointment local authorities benefited from a reduction in fees in the order of 55% compared with fees in 2012.
- 1.2 For the five financial years commencing 1 April 2018, the audit committee agreed that the council should appoint PSAA to procure an external auditor for the council to benefit from the economies of scale and better accountability from PSAA managing contracts on behalf of local government from participating in a procurement across local government. PSAA appointed Grant Thornton as the council's external auditor for this period. This contract has saved the council a further £50,736 comparing the 2017/18 and 2018/19 audits, on top of the saving detailed in the previous paragraph.
- 1.3 Not all the work that external auditors may have to carry out is within the scope of the agreed fees. In such cases, the external auditors may choose to charge additional fees. However, these additional fees are subject to scrutiny by PSAA who have to agree the fees before they are paid. This acts to consolidate skills in managing external audit contracts across local government, and helps ensure consistent approach to additional fees across the sector.

## 2.0 Recommendations

2.1 The Committee note the additional fees proposed by KPMG and Grant Thornton.

### **3.0 Detail**

#### **LOBO Objection**

3.1 KPMG have been carrying out work in relation to an objection received to the 2015/16 accounts concerning the council's Lender's Option, Borrower's Option loans (LOBOs). This objection has now been resolved, and audit certificates issued the financial years for 2015/16, 2016/17 and 2017/18. The work KPMG completed on audit fees is outside the standard audit fee and an additional fee is payable to reflect the work completed on the objection.

3.2 KPMG is proposing a fee of £14,630 to take into account their review of the 14 LOBOs (including inverse floaters and those with up front incentives); review of relevant papers to support the decisions to take out the loans, various correspondence and policies; drafting their provisional view; considering additional issues raised and challenges to their findings from the elector, discussions with PSAA and PSAA's legal team and final drafting and issue of their decision.

3.3 The fee has to be agreed with Public Sector Audit Appointments (PSAA).

#### **2018-19**

3.4 Grant Thornton are proposing an additional fee of £6,400, connected with additional work they carried out on evaluating the issues raised by the McCloud judgement for the pension reserves and liabilities, and additional work required by their regulator, the Financial Reporting Council, on verifying asset valuations and Pensions. As with the KPMG fees, the next stage is for PSAA to review these costs, and either agree or amend them.

### **4.0 Financial Implications**

4.1 The financial implications of this report are the additional fees detailed in the previous section.

### **5.0 Legal Implications**

5.1 There are no legal implications arising from this report.

### **6.0 Equality Implications**

6.1 There are no equality implications arising from this report.

### **7.0 Consultation with Ward Members and Stakeholders.**

7.1 Not applicable.

**Report sign off:**

**Director of Finance**  
Minesh Patel



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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 <sup>th</sup> September 2019
	<b>Report from the Chair of i4B Holdings Ltd</b>
<b>Report on i4B Holdings Ltd</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1. Risk Register 2. Risk Management Framework 3. Internal Audit Responses Action Plan 4. Internal Audit Follow up Review – Governance RM and FM Action Plan
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Peter Gadsdon i4B Board Director Email: <a href="mailto:peter.gadsdon@brent.gov.uk">peter.gadsdon@brent.gov.uk</a> Tel: 020 8937 6095

## 1.0 Purpose of the Report

1.1 This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, audit arrangements, and risk register.

## 2.0 Recommendation(s)

2.1 The ASAC is asked to note:

2.1.1 Current performance.

2.1.2 The update to the i4B risk register.

2.1.3 The update on recent i4B audits, and progress towards implementing previous audit recommendations.

## 3.0 Background

3.1 This report provides the ASAC with an update on the Company's performance, the current assessment of risks resulting from i4B's operations to the Council and i4B, and recent i4B audits.

- 3.2 i4B's 2019/20 business plan was agreed by the Shareholder in February 2019. The business plan incorporates the following as i4B's strategic priorities for 2019/20:
- Continuation of the PRS acquisition programme;
  - The provision of Intermediate / Key worker accommodation;
  - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
  - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market
- 3.3 The 2019/20 Business Plan also highlighted that the Shareholder was investigating opportunities to align i4B and First Wave Housing Ltd. This included looking at the possibility of merging the two companies. The Shareholder has determined that merging the two companies is not viable. This is principally because i4B is a company limited by shares and FWH is a company limited by guarantee.

#### **4.0 Performance (August 2019)**

- 4.1 Performance measurement for i4B is based on: acquisitions, conveyancing of properties, and on the housing management of the three contractors, Mears, Pinnacle and Brent Housing Management. Overall performance has improved since the Company last reported to the Committee in February 2019.
- 4.2 In February 2019, i4B had 204 properties in its portfolio, purchased at an average cost of £352,900 and 177 of these properties were let. As of August 2019, i4B's portfolio has increased to 228 properties, purchased at an average cost of £356,637; the target acquisition cost is £363,000. 213 of these properties have been let. The rate of acquisitions has slowed primarily due to the slowdown in the housing market. Officers are currently investigating opportunities to increase the rate of acquisitions.
- 4.3 As of August 2019, i4B has 22 properties in negotiation and valuation, 29 properties in conveyancing, and 4 properties in the delegated authority (final approval) stage, and 8 properties awaiting contract exchange.
- 4.4 The average rent collection rate as reported by the management agents in June is 94.35% compared to 90.67% in February 2019. BHM's collection rate of 95.61% is the highest amongst the three contractors. All contractors will continue to be closely monitored for rent collection performance to encourage the target of 98.5% to be achieved.
- 4.5 95% of all urgent repairs were resolved within 24 hours in August 2019, which is consistent with the 95% in February 2019. 100% of all emergency repairs were resolved within 24 hours both in February and August 2019.

## 5.0 Financial Performance

Table 1: summary of the draft financial outturn of i4B Holdings as at 31st March 2019 compared to the 2018/19 Business Plan.

	2017/18 Outturn (restated) £'000	2018/19 Business Plan £'000	2018/19 Outturn £'000	Variance £'000
Turnover	152	3,856	2,106	(1,750)
Cost of Sales	(183)	(186)	(186)	0
Gross Profit (loss)	(31)	3,670	1,920	(1,750)
Administrative expenditure	(512)	(1,034)	(1,115)	(81)
Interest payable and similar charges	(1,008)	(3,302)	(2,269)	1,033
Surplus on revaluation			1,362	1,362
Loss on ordinary activities	(1,551)	(664)	(102)	564

5.1 Rental income was lower than budgeted for three reasons:

- The 2018/19 Business Plan target was to purchase 300 properties by 31 March 2019. i4B purchased 214 properties by 31 March 2019, with 179 properties occupied. This had a one-off adverse impact of circa £1.5m.
- The average weekly rent per property target was £320 and actual was £296 (7% below). This will have an adverse impact of circa £160k per annum.
- The average cost per property (including works, SDLT, fees and VAT) target was £333,333 and actual was £358,000. All other things being equal, this would mean that fewer properties could be purchased for the same total budget.

5.2 Although administrative expenses were lower than budgeted, they were not significantly different from the budget for 300 properties. The 'flexed budget' (adjusted for variable costs relating to the properties) for administrative expenses relating to the 214 properties would have been £856k. This would imply an adverse variance of £260k. The company is undertaking further work to understand the nature of this variance.

5.3 Overall performance was better than forecast in the 2018/19 business plan. This is due to revaluation gains of £1.3m, i.e. in 2019/20 the value of i4B's stock increased by £1.3m.

## 6.0 Social Benefits of i4B

6.1 i4B's PRS acquisition programme increased the number of affordable housing tenures in Brent and the Home Counties. The Company has been successful in purchasing private sector homes and switching the tenure to an affordable rent product. 360 new affordable homes will be created by April 2021.

- 6.2 As of January 2019, 213 Brent families, including 534 children, have been housed in i4B properties.

Table 2: Breakdown of families directed to i4B as of August 2019

<b>Previous Accommodation</b>	<b>no. of families</b>	<b>no. of children</b>
Direct to i4B	27	60
Women's Refuge	2	6
TA Stage 1 – B&B	163	398
TA Stage 2 – Leased	21	70
<b>Total</b>	<b>213</b>	<b>534</b>

- 6.3 All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS accommodation which is generally of a lower standard. Also, with i4B as their landlord, tenants are safe from practices such as revenge evictions.
- 6.4 i4B also supports the diverse needs of the borough. i4B has agreed a mobility friendly standard with the Council. Homes will have level access, walk in showers will often be installed as part of the refurbishment. Around 10% (30) of i4B properties will achieve this standard, helping provide more suitable accommodation for some homeless customers and make a contribution to hospital discharges.

## **7.0 Financial Benefits of i4B**

- 7.1 i4B provides the Council with ongoing financial benefits. The below figures are drawn from the 2019/20 business plan.

Table 3: Annual Financial Benefits the Council will receive due to i4B once 300 properties are purchased

<b>Annual Benefits</b>	<b>Annual financial benefit</b>	<b>Description</b>
Loan interest profit 0.3%	£248,000	This is profit on the loan interest, since the Council can borrow money at a lower rate than it charges i4B (currently 2.6% and 2.9% respectively).
Temporary Accommodation savings £1,960 p.a.	£588,000	Saving of £588,000 based on 300 households diverted from stage 2 temporary accommodation which costs the Council £1960 per annum per household.
SLA payment	£444,000	
<b>Total ongoing financial benefits to the Council</b>	<b>£1,280,000</b>	

- 7.2 However, there are also ongoing financial costs.

Table 4: Ongoing Financial Costs

<b>Annual Costs</b>	<b>Annual financial cost</b>	<b>Description</b>
Interest on equity investment	£538,000	The Council can initially invest existing resources but will have to borrow the funds for the equity investment in the next few years. It will therefore incur ongoing interest charges relating to the equity investment.
Costs relating to SLA provision	£444,000	
<b>Total ongoing financial benefits to the Council</b>	<b>£982,000</b>	

<b>Net ongoing annual financial benefits to the Council</b>	<b>£298,000</b>
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7.3 In addition, the Council receives one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of property and property price increases. The one-off financial benefits from the loan for the first 300 properties are:

- Loan arrangement fee of 1% (~£830k)
- Loan non-utilisation charge (~£620k)

7.4 As the sole shareholder, the Council can benefit from property price growth of the portfolio.

## **8.0 Key Worker Accommodation**

8.1 The 2019/20 Business Plan, approved by Cabinet in February 2019, agreed that the Company progress the purchase of a block of 153 units for the provision of key worker accommodation at 60%-80% market rent. i4B is currently pursuing this new opportunity. In addition, the company is working with the Council to explore a number of other potential opportunities for purchasing smaller blocks, this is in line with the agreed business plan.

### **8.2 Benefits Analysis**

8.2.1 There are a number of benefits that i4B and the Council will receive from the purchase of the key worker accommodation. These include:

- Attracting key workers into the Council. The Council is currently struggling to recruit a number of key staffing groups.
- Key worker accommodation will help retain key workers.
- The block will increase the amount of discounted market rented housing stock in the borough.
- The block may increase in value over time.
- The block will diversify i4B's business plan, and therefore reduce risk.

### 8.3 Risk Analysis

8.3.1 i4B officers have carried out an initial investigation of the key risks of purchasing the block. Table 5 below outlines these risks and the measures in place to mitigate risk.

Table 5: Key risks of key worker block purchase and mitigating measures

<b>Risk</b>	<b>Mitigating Measure</b>
Void periods are longer than expected. There is insufficient demand to fill the block. As a result, i4B has fewer properties receiving rent and is liable for costs such as council tax for void properties.	In the financial modelling, i4B has built in void rates of 50% in year 1, and 30% in year 2.  In the event that there is insufficient demand from Council key workers, i4B will work with other public sector bodies.
At present, i4B does not have a full understanding of servicing and maintenance costs. As a result, costs may be higher than what is presently modelled.	i4B is working with BHM to investigate what the costs of maintaining the block will be. The company will have a full understanding of costs before purchase.
There are potential tax implications on tenants and i4B. These are not fully understood at present.	i4B is seeking advice on the tax implications on the company and tenants. At present, these are not thought to be major. An alternative purchase vehicle could be used if the tax is deemed unacceptable.
The block will bring a new management style for BHM. At present, BHM does not manage any blocks of key worker accommodation. Tenants of these blocks will expect a high standard of management.	i4B is already working in partnership with BHM to go through management costs and expected standards. This involves potentially employing personnel who will work solely on the block. i4B is also exploring market options for block management services.
All legal, financial, property and HR elements of the project must be identified and worked through for the purchase and operation of newly built development.	A project management working group has been created which is led by the councils Operational Director of Property and Assets, there is representation from i4B/FWH, finance and housing management partnerships. With a sub group feeding into this on working through the key worker aspects of the project

### 8.0 **Risk Register and Risk Management Framework**

8.1 The Company's Risk Register can be found in Appendix 1 and the Risk Management Framework in Appendix 2.

8.2 Since the last meeting with the Committee in February 2019, no new risks have been added.

8.3 The following risks remain as live issues and are being monitored as such:

- The pipeline of properties is slower than the SLA target.
- Business plan rent collection rates are not achieved and bad debt exceeding business plan assumptions.

8.4 A Risk Management Framework (Appendix 2) was created to accompany the Company's Risk Register. The framework outlines the Company's process for

identifying, measuring, managing, monitoring and reporting risks. It also discusses the Company's risk appetite and the Company's ambition to grow the business.

## 9.0 Financial Model Audit

9.1 The purpose of the audit was to assess the design and build of the i4B PRS financial model and to check that its calculations are consistent with the model intent. The following work was carried out:

- The model was reviewed to see if it was performing as designed and to identify any errors in the calculations.
- The model was assessed in comparison with the auditor's view of modelling best practice. This included assessing spreadsheet design and documentation.

9.2 Officers will be working to implement recommendations during the 2019/20 financial year. Full management responses can be found in the Internal Audit Responses Action Plan (Appendix 3).

## 10.0 Internal Audit Update

10.1 In April 2019, i4B agreed a programme of two internal audits for 2019/20. The Acquisitions audit is now underway. i4B will provide the Committee with an update when it next attends.

Table 1 – i4B internal audits

Audit	Scope	Status
Acquisitions	To include acquisition strategy, performance, sourcing, probity, management information and reporting	The audit has been complete. Management responses are currently being agreed.
Follow Ups	Follow ups of 2018/19 Audits: <ul style="list-style-type: none"> <li>• Fraud Risk (to include FWH)</li> <li>• Financial Model</li> </ul>	Yet to commence

## 11.0 Update on Recommendations from Previous Audits

11.1 Internal audit recently carried out a follow up review into the i4B Governance Risk Management and Financial Management Action Plan (Appendix 4). i4B has fully implemented agreed actions from the audit.

11.2 This included the implementation of an annual policy review. i4B is currently undergoing this year's policy review. This review will include updating the policies with any new statutory regulations that have come into place since the last review. The policies are then resubmitted to the Board for approval before being distributed to the service areas and contractors.

11.3 The creation of the Risk Management Framework to accompany the Risk register was also part of the audit follow up review, which was completed by i4B. Other actions that were implemented due to the follow up review include:

- Ongoing review of SLA
- Code of Conduct, which was signed by all i4B directors.
- Creation of an Escalation Policy

- Scheme of Delegation
- Financial Procedures

**Report sign off:**

**Martin Smith**

Chair of i4B Holdings Ltd

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
4	Business plan rent collection rates are not achieved and bad debt exceeding business plan assumptions. Introduction of universal credit adversely affects rent collection	The business plan assumes a rent collection rate of 98.5% of rent due and 2% bad debt The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	i4B	Financial	4	3	12		Still live issue. However, following, weekly monitoring of rent reports, serving breach of contract notices, and a workshop to formulate an income collection action plan rent collection has improved for 7 consecutive months. It is now 93.01% May 2019.  The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.  The 2019/20 Business Plan states that rent collection should achieve 95% for the first year and 98% thereafter. The quintain block has an additional risk that the letting period will be lengthened to ensure the brand is maintained and potential customers can be vetted. Properties on schemes should be phased.					Open - Live issue	11/06/18: Risk has materialised into a live issue 14/02/2019: Mitigation amended.
5	Void periods exceed business plan	The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property. The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.	i4B	Financial & achieving operational objectives	2	3	6		i4B has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenants. i4B is working with the council to ensure purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. i4B could approach the shareholder to dispose of properties in locations consistently failing to attract customers.  All future properties will be purchased in Brent where there will be high demand.	1	3	3		Open	14/02/19: Mitigation amended. 2019/20 Business Plan outlines plans to purchase more properties in Brent where there is higher demand.
8.1	There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord	The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc. Failure to comply H&S requirements increase the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board.	i4B	Financial & Reputational	1	5	5		Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring and KPI reports include some key aspects including gas, complaints and customer satisfaction. BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.	1	5	5		Open	
8.2	There is a risk that i4B is deemed to have failed a statutory requirement in it's corporate role	The company must comply with regulatory and best practice requirements around it's own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman. The consequences of other statutory failures may be fines and/or reputational damage to i4B.	i4B	Financial & Reputational	1	5	5		The Board is putting in place suitable policies and procedures in place to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements. Support for company governance is included within the companies' core SLA with the Council.	1	5	5		Open	

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
9	The business plan does not diversify its products	The current business plan is primarily based on a Private Rented Sector (PRS) landlord model with permission to provide some market rent.  The potential consequences of this risk materialising is the company may find its income and rent collection rate is more vulnerable to impacts of legislation including changes in housing benefit changes.	i4B	Financial & achieving operational objectives	1	2	2		i4B continues to seek to diversify its product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates.  The financial plan relating to 300 units does not make any growth assumptions. As the current business is a going concern over 30 years the risks relating to diversification are less critical. Risks such as LHA rates and inflation have been identified elsewhere in the 2019/20 business plan.	1	1	1		Open	14/02/2019: Mitigation amended. In January 2019, financial modelling concluded that the current business is a going concern over 30 years. Hence, risk less critical.
10	The cost to deliver i4B services exceeds business plan assumptions	There are a number of key assumptions built into the business plan and the setting of the Net Yield %. These cost assumptions include: housing management services; repair and maintenance; insurance; contracts and service level agreements; major refurbishment programmes; and debt finance arrangements. As the business grows, cost assumptions may change and new costs may be encountered. For example, Housing Management for 153 Key worker properties may be at a premium.  The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.	i4B	Financial	3	3	9		A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce cost through contract management renegotiation, eliminating the cost where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. The company is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First Wave housing, ultimately combining corporate and other services to create efficiencies.  Company budget and spend is reported and monitored at monthly Board meetings to ensure the Company is operating within budget.  For the 153 key worker properties, housing management costs will be built into the purchase price. Economies of scale for repairs and housing management should be achieved as the business grows.	2	3	6		Open	14/02/2019: Business Plan assumption and mitigation amended to reflect ambition to purchase 153 key workers units.
11	Interest rates increase impacting on new loans taken out by the Company	30 year loan facility for up to £103.5m at a fixed interest rate of 2.87%.  Short term working capital loan facility for up to £3.5m at a fixed interest rate of 3%.	i4B	Financial	4	1	4		The current facilities are for fixed terms and fixed interest rates therefore i4B is not currently exposed to any interest rate risk. i4B will seek to arrange future loan facilities on the same terms whilst interest rates remain low. Should base rates significantly change, i4B will review and revise its growth and financing strategy appropriately having taken the necessary professional advice.	4	1	4		Open	30/05/2018: Risk wording changed to clarify this risk relates to new loans
13	LHA rates fall below business plan assumptions	The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum. The business plan assumes 600 LHA rates and 150 intermediate rents.  The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.	i4B	Financial	2	4	8		The 3% increase in LHA rates from 2018 and 2019 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years.  The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. The introduction of new products and some new build properties with higher yields may mitigate any future reductions in LHA rates. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.	1	3	3		Open	14/02/2019: Mitigation amended to reflect 2019/20 LHA increases. Risk impact and likelihood reduced.
15	The pipeline of properties is slower than the SLA target	The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel.  The programme assumes 300 properties purchased by April 2020 and 360 by April 2021.  The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is its only source of funding.	i4B	Financial & achieving operational objectives	5	3	15		It was agreed at the June 2018 Board meeting that this risk had materialised into a live issue. The following steps are being taken to manage this issue:  i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.  Revisions have been proposed to the SLA target for conveyancing.					Open - Live issue	11/06/18: Risk has materialised into a live issue  14/02/2019: Targets revised with 2019/20 business plan. The Company is set to meet those targets.  10/06/19 Discussions progressing on potential purchases.

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
16	Property price inflation reduces average yield and increases average purchase prices	The programme assumes 300 properties purchased by April 2020 and 360 by April 2021.  The potential consequences of this risk materialising is the acquisition programme would slow down, reducing the realisation of benefits to the council. However, the company would also be weaker with fewer properties as some fixed costs would be spread between fewer properties. The company's loan facility would continue to incur costs to the company.	i4B	Financial & achieving operational objectives	2	3	6		Difficult to mitigate as limited control of market conditions; continue to monitor closely, and diversify activity as required. However, i4Bs business operates on 300 properties at 1.22% net yield. All new build properties will be expected to achieve between 1.3% and 1.7% net yield. i4B are not obliged to purchase any new build unit under its target new build yield (which should be circa 1.22%)	2	3	6		Open	14/02/2019: Mitigation amended.
17	Due to affordability the demand for the location of properties purchased varies from the business plan	The business plan assumes that: phase 1 – 220 properties purchased in Brent & Greater London, 80 in the Home Counties; phase 2 – up to 60 properties purchased in Brent.  If demand for the properties in Brent reduces i4B may have to purchase more Home Counties properties. Properties in Brent have performed better in financially and have been easier to manage.	i4B	Financial & achieving operational objectives	3	3	9		These risks are managed through the yield and ensuring demand is high. The business plan anticipates all new homes will be in Brent and therefore the more challenging out of Brent properties in terms of housing management and rent collection are already purchased and managed within the current risk levels. The scale of growth should act to reduce further the risks associated with out of borough lets.	1	2	2		Open	14/02/2019: Mitigation amended. i4B will not purchase any more Home Counties properties.
18	The refurbishment period exceeds SLA target	The SLA has a target of 70 days for the first 100, 64 days for the 2nd 100 and 56 days for the 3rd 100 units.  The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.	i4B	Financial & achieving operational objectives	2	4	8		The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's refurbishment service. Quotes for works are provided to i4B prior to properties being purchased. i4B could encourage the council through the SLA to introduce additional refurbishment teams or processes. The programme of purchases could be slowed to keep pace with refurbishment capacity.  Early issues with the Refurbishment process have been addressed and now performance is within the KPI	2	4	8		Open	11/01/2019: Risk likelihood increased from 1 to 2. Although current refurbishment performance is within business plan assumptions, performance is likely to deteriorate. This is due to the reduced pipeline of refurbishment work making it harder for the contractor to mobilise their supply chain.
19	The nominations process exceeds SLA target.	The business plan assumes 90 days for the refurbishment and lettings process.  The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.  It is likely that the handover of new build schemes will cause challenges as to the number of suitable customers available immediately.	i4B	Financial & achieving operational objectives	4	3	15		The Board monitor nomination KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could work to bespoke some properties through a variation to its refurbishment specification. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation.  The 2019/20 Business Plan reduces the amount of hard to let Home Counties properties that will be purchased. All remaining properties will be purchased in Brent. Therefore, lettings performance should improve.  For new build schemes the company may need to develop alternative short term letting strategies to prevent voids prior to the first letting. The net yield calculator should also anticipate difficulties. Schemes should be managed to provide a steady stream of properties and avoid too many units being handed over at any one time. New approaches required for nominations and lettings teams.	3	3	6		Open	14/02/2019: Risk likelihood reduced. However, the Company will face the future risk of ensuring that the Wembley Park Block is let in an efficient manner.
21	Company cash flow (capital and revenue) is insufficient to manage expenditure	i4B has commenced a large acquisition and refurbishment programme. The 2019/20 Business Plan outlines plans to increase the Company's portfolio to over 700 units in the next few years. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent.  The potential consequences of this risk materialising is the company becomes insolvent.	i4B	Financial	3	5	15		i4B is monitoring SLA performance to deliver capital works and refurbishments within business plan requirements. i4B is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The Council has approved a cash flow facility of up to £4m and modelling is being undertaken to assess if this will be sufficient to meet i4B working capital requirements. i4B will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.  The Shareholder has increased the cash flow facility to £4 million because Company losses have been forecasted to be higher than originally anticipated.	2	5	10		Open	14/01/2019: Business Plan assumption amended to reflect growth ambitions. Mitigation amended to reflect increased cash flow facility.

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
23	There is a risk that the demand increases for the types of properties that are financially less viable for i4B (e.g. large family properties in expensive areas in Brent)	The average property price for PRS phase 1 is £363,333 and the average purchase price for PRS phase 2 is £400,000. 1.1% net yield. Changes in demand could cause conflict between the companies' need to deliver on the Council's objectives, and the financial viability of it's business plan	i4B	Financial	1	4	4		Current demand is spread across lots of different property types, so it has been possible to tweak the mix of properties purchased to maintain average yield (e.g. purchasing increased numbers of 2 beds in Brent, which offer better yields than larger properties).  Quarterly meetings have been initiated to monitor future demand and provide an early warning of this risk materialising.	1	4	4		Open	11/06/18: New risk added
24	There is a risk that there is a permanent downward adjustment of house prices		i4B	Financial	2	4	8		Difficult to mitigate as limited control of market conditions; continue to monitor closely.	2	4	8		Open	
26.1	There is a risk of Fraud to the company	Set up of invalid/fictitious suppliers by staff for personal gain. Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not received.	i4B	Fraud	2	3	6		Payments from i4B's account are made through the council's payment system and as such are subject to the Council's policies and procedures. i4B currently only makes payments to the council through the council's payment system.  i4B's Scheme of Delegation states that any purchases or contracts of over £50,000 from the Company's funds requires the signatures of at least two of the Company's Directors.	1	3	3		Open	11/01/19: Mitigation amended
26.2	There is a risk of Fraud to the company	Diversion of tenant rent payments by staff. Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.	i4B	Fraud	2	3	6		A 'Rent Collection and Arrears Management' policy is being drafted which will outline i4B's approval procedure for rent arrears right-off. This will include both board and shareholder approval.  PRS programme manager receives weekly rent reports from housing management providers which detail if any refunds on rent overpayment have been given. To date, no refunds on rent overpayments have been given.	1	3	3		Open	11/01/19: Mitigation amended
26.3	There is a risk of Fraud to the company	Subletting of properties by tenants. Letting of properties by Council or maintenance staff for personal gain during a void period. Collusion between staff/ board members and buyers to dispose of properties at under market value. Undeclared conflicts of interest between staff/board members and buyers.	i4B	Fraud	2	3	6		Property void times will be reported to the board to work to keep void periods low. BHM will prioritise regular visits to higher risk properties. High risk properties will be defined by intelligence from the Council's Audit and Investigation department. The board will be provided with detailed reporting on void checks undertaken by BHM.  i4B will develop an Assets Disposal Policy to outline the process for the disposal of Company assets. This will consider the Council's checks and valuations, and will incorporate board and shareholder approval. The policy will be submitted to the shareholder for approval.	1	3	3		Open	New risk added after Fraud Risk Assessment approved at October Board.
26.4	There is a risk of Fraud to the company	Collusion between staff/board members and estate agents in relation to finder fees and commissions. Collusion between staff/board members and vendors to inflate purchase prices and share the additional amount. Staff making payments for fictitious property purchases to themselves. Repairs/maintenance/major works – overcharging or charging for fictitious works.	i4B	Fraud	2	2	4		All properties purchased by i4B receive Delegated Authority approval in accordance with the Company's Scheme of Delegation. This is documented on i4B's Microsoft Dynamics case management system. The criteria for property purchase is pre-set by the Company's net yield calculator. Brent Staff acting on behalf of i4B are governed by the Council's Code of Conduct and their work is regularly assessed through internal management checks and processes.  BHM will implement a post inspection regime to ensure that the repair and major works completed comply with what is being paid for. A review will be undertaken into a property when it receives more than 7 repairs in a 12 month period. The average cost per repair per property will be reported regularly to the board. Single repairs over £199 and double repairs over £299 are approved by i4B's programme manager.	1	2	2		Open	New risk added after Fraud Risk Assessment approved at October Board.
26.5	There is a risk of Fraud to the company	Falsification of financial position by i4B to secure additional Council funding. Nepotism in procurement processes, including bribery. Invalid or overly ostentatious expenses, for example for entertainment purposes. Facilitation of income tax avoidance.	i4B	Fraud	2	3	6		Regular Shareholder review meetings take place between i4B and the shareholder.  i4B is reviewed twice a year at the Council's Audit and Standards Advisory Committee.  Board member expenses are governed by council policy and procedures.  All board members are required to declare their interests at monthly board meetings and have signed a Board Code of Conduct.	1	3	3		Open	New risk added after Fraud Risk Assessment approved at October Board.

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
26.60	Contractor inflating or falsifying development costs, resulting in i4B's portion of expenditure being increased.	N/A - potential future business activity.	i4B	Fraud					To be reviewed when activity undertaken.						
26.7	Collusion between staff/board members/agents and vendors to inflate purchase prices and share the additional amount. False representation by vendors in relation to land ownership or suitability for development. Organisations misrepresenting their financial viability/performance to make them more attractive as an acquisition.	N/A - potential future business activity.	i4B	Fraud					To be reviewed when activity undertaken.						
27	The Council's build costs increase	The Company plans to purchase 270 properties from the Council. These properties will be higher yielding and improve the financial strength of the Company. If build costs increase for the Council these may be passed on to i4B thus reducing yield.	i4B	Financial	3	4	12		be able to achieve net build targets on average circa 1.5%. i4B are not required to purchase properties which do not fulfil their criteria.	2	3	6		Open	14/02/2019: New risk added.

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# i4B Holdings

## Risk Management Framework

April 2019



### Document Master Sheet

Amendments to this document detailed below:

Version	Author	Date	Review Date	Comment	Approved by
1	Khadija Koroma	April 2019		Framework created	i4B Board

## 1.0 Introduction

1.1 The risk framework was created to accompany the risk register, which is a standalone live document.

1.2 The risk framework outlines i4B's process of:

- Identifying
- Measuring
- Managing
- Monitoring and Reporting

The framework also discusses the risk appetite of the i4B Board.



1.3 The risk register identifies different types of risks, and the assumptions made in the business plan in relation to that risk. It then highlights the type of risk it is, e.g. financial, reputational etc.

## 2.0 Identifying

2.1 The risk register already identifies a number of risks.

2.2 Officers meets on a quarterly basis to consider the risks, and to add new risks that may arise as the business move forward. The new risks come as a result of new initiatives of the company, e.g. revisions of business plan or revisions of investment plan.

2.3 Risks relating to revisions of business plan are identified through the business planning process. Anticipated changes to the Company's risks as a result of the new business plan are discussed by the Board as part of the process.

2.4 Council representatives, who are specialists and experts in various aspects of the Company's work will identify external forces and bring it forward to be added to the risk register. This includes changes in the external environment, changes to law and government policy etc. This is fed into the risk assessment each quarter or brought to the attention of officers and the Board through timely communications.

## **3.0 Measuring**

- 3.1 The risk register scores the risks in 2 pre-mitigating categories; 'Likelihood' and 'Impact' which then multiplies to generate a risk score. It then outlines the ways in which the risk can be mitigated. After this, there is another set of scores for the 2 post-mitigating categories ('Likelihood' and 'Impact'), and a new risk score is calculated. The risk status is then shown and comments are made regarding the risk. The pre-mitigating and post-mitigating scores are both calculated in the same way.
- 3.2 The likelihood is scored out of 5:
- 1 – Highly unlikely/improbable
  - 2 – Not very likely
  - 3 – Likely/Possible
  - 4 – Very likely
  - 5 – Almost Certain
- 3.3 The impact is scored out of 5:
- 1 – Insignificant
  - 2 – Minor
  - 3 – Moderate
  - 4 – Major
  - 5 – Catastrophic
- 3.4 The risk score is then scored out of 25. This is done by multiplying the likelihood and the impact. If the likelihood of a risk is 2, and the impact is 4, then the overall risk score will be 8.
- 3.5 Each score is decided through discussions between experts working for and with i4B. The experts are able to give the likelihood of a risk, and the impact said risk could have on the business. The risk score is then calculated and the expert gives advice on how the risk can be mitigated and how the mitigations will affect the post-mitigating risk scores.

## **4.0 Managing**

- 4.1 It is important that i4B effectively manages the risk register to insure that officers are always kept up to date with the risks.
- 4.2 Changes to risks can be identified through the Key Performance Indicator (KPI) reports. The live Dynamics report produces an up to the minute data. This highlights any areas where the performance is not meeting its target, and actions can then be taken to ensure that the risk shown on Dynamics does not become an issue.
- 4.3 Risks are managed at both officer level and at Board level. The officers manage their individual tasks, and the Board manages the overall risk register as the register is on

the agenda on a quarterly basis. The Board ensures that actions are taken by officers and these actions are logged and tracked through the Forward Plan and the Action Log.

- 4.4 Through the SLA officer meetings, risks from service providers are discussed. This means that i4B can assess if risks are being effectively managed by service providers and whether the risks are likely to increase or decrease.

## **5.0 Monitoring and Reporting**

- 5.1 Risk are monitored through the KPIs, which have 34 different well-defined indicators that are monitored on a monthly, quarterly, or annual basis, depending on the individual KPI.

Officers responsible for the individual indicators monitor it and contribute to that KPI report that is provided to the Board each month. These reports highlight the performance of key areas, and supplementary reports are also provided for issues that need more consideration.

- 5.2 Audit govern the Board's approach to identifying, monitoring and maintain risks.

## **6.0 Risk Appetite**

- 6.1 I4B is a business designed to deliver benefits to support LB Brent's strategies and deliver products which the council is unable or not well placed to do itself. The company is scrutinised for its contribution to the council's agendas and outputs such as LB Brent homeless nominees housed.

- 6.2 The Company's current business model is one based on small financial margins but significant investment and borrowing. The business invests to provide products and benefits which make a difference to the Council and the people of Brent. For these reasons the company is focused on delivering outputs and quality services to its customers. A low risk strategy has been adopted and provided the company, lender and shareholder greater reassurance in the company delivering sustainable outcomes.

- 6.3 Low risk taking has allowed the company to manage business risks and after two years, bring financial stability to the young business. This emerging stability has provided the company, lender and its shareholder confidence to continue with significant growth ambitions.

- 6.2 Although the business is continuing a high growth strategy, purchasing over 100 properties annually, the Board's low risk approach can be seen as offsetting its risk through the terms of its loan agreement, equity share arrangements with the shareholder, service level agreements and contracts. This ensures that its rent levels track but do not exceed levels covered by welfare payments.

- 6.3 The Board has placed significant emphasis on establishing and maintaining a rigorous monitoring regime and has sought swift and continuous improvements to establish the businesses controls. This approach has shown a cautious approach to risk but a high level of commitment towards proactive monitoring and management. Some of the key risks in the first two years have been mitigated through fixing loan terms and fixed fees for services. The Board has visited and revisited its financial

model, ensuring loan terms and SLAs support the Company to achieve its financial targets.

- 6.4 As a young business, i4B has placed a significant amount of focus on key financial measures such as Gross and Net margins of yield, rent collection, cash flow and void rates. The company has refined purchasing guidelines on a regular basis to ensure it is not exposed to higher levels of risk due to an unsustainable portfolio costs. Likewise, there are constant reviews of refurbishment costs and the approach used to deliver refurbishment in order to mitigate risks.
- 6.5 The Board has established SLAs with LB Brent and contracts with private company's limiting the company's exposure to risk and protecting the Company's financial assumptions in the early years of business.
- 6.6 The business has made a decision to invest in new digital technology to ensure data records and performance management are using live data and automating processes wherever possible. This again is evidence of the Board placing emphasis on good performance management to deliver a good business and protect the company's financial model.
- 6.7 The Board recognises that its core PRS product is now established. Homes for rent at local housing allowance levels is the core business and the understanding of how this performs allows the company to build and maintain its low appetite towards risk. The company is therefore able to use its current approach to risk to grow the business in new direction without using higher risk strategies.
- 6.8 The Board's business growth plans are based on introducing higher yielding properties into its existing portfolio. The loan commitments and services which relate to higher yielding new homes will mirror those which have been applied to its PRS portfolio. The Board is therefore retaining its low risk strategy whilst seeking to create a stronger financial base and slightly higher margins.
- 6.9 The Board's growth ambitions will also allow it to make some financial efficiencies by utilising existing delivery routes through SLAs and contracts. Examples of these opportunities is the company's ambition to purchase newly built blocks of properties with known costs and efficiencies in management as opposed to street properties with less certain costs and a more disbursed management commitment. Throughout these purchases the company will retain its business model rigour of low interest charges, equity sharing and minimal property yield in excess of PRS.
- 6.10 Although the business growth strategy is ambiguous in its scale, it is designed to build on and increase margins of its core product.
- 6.11 The Board's business plan model contains assumptions that evidence a relatively low risk appetite and those include assumptions on rent collection, bad debt and void rates. In addition, the business plan includes a risk percentage to act as a buffer should costs increase or income reduce.
- 6.12 i4b has ambitions to grow the business which will in itself bring new risks. These risks will be mitigated through the processes that are already in place for i4B.



		Recommendation	Draft Response	Owner	Status/Target Date	Update on Actions taken
A1	Policies – Completeness and maintenance Control design and Operating effectiveness	a. Consider the need for the policies listed in the Shareholder's Agreement, and either produce policies in these areas or amend the shareholders' agreement as required.	a)Accepted - the board will review the list of policies set out in the shareholder agreement and agree any additional policies which are required. The Shareholder agreement will be updated to reflect any changes.	Sadie East	Complete	03 July 2018 - Company policies have been reviewed and a number of minor alterations made. Policies will be resubmitted to a representative from the board for approval and then distributed to Service Areas Leads and i4B commissioned services
		b. Introduce a consistent approach to the review of policy documentation including the frequency of review, responsibility for review, and approach to ensuring version control.	b)Accepted - Policies will be reviewed annually by the board.	Sadie East	Complete	All company policies will be reviewed annually
		c. Undertake a review of all policies in order to ensure that the content remains applicable now that I4B is operational.	c)Accepted - All policies will be reviewed as part of the exercise above and then reviewed annually.	Sadie East	Complete	All company policies will be reviewed annually
A2	Ongoing review of the SLA - Control design	A procedure for ongoing review of the effectiveness of the SLA should be introduced whereby the SLA is reviewed by a specified individual on at least an annual basis. This review should include: Whether the council is providing services to i4B in the most effective and efficient way possible, including performance against a series of KPIs; Whether the council remains the most effective Service Provider for the listed services; and Whether, given changes in the nature of i4B's business, any services should be added to the SLA	Accepted - A number of measures are being put in place to monitor delivery of the SLA including a regular meeting of all service leads. A regular report will be provided to the i4B Board on delivery of the SLA including any issues and actions in place to address these as part of the regular performance monitoring reports. In addition, an annual report based on a review performance against the SLA will be presented to the board to inform decisions on future arrangements.	Sadie East	Complete	The SLA is monitored at monthly meetings between service leads and i4B. A monthly report from these meetings is provided to the board.  The board receive monthly performance updates on performance against the SLA.
A3	Risk Management - Control design	a. I4B should create a Risk Management Framework that clearly depicts: The organisation's approach to risk management; The organisation's risk appetite; The approach to documenting and recording risk on the risk register; Responsibilities in relation to the management and identification of risk; The mechanism for scoring of risks; Responsibilities for maintaining and updating the register; The mechanism for gaining assurance over the operating effectiveness of the mitigations; and The involvement of the Board in risk management and review of the risk register.	a)Accepted - The board will consider a proposal to create a risk framework and will consider the relative scores of the new risk assessment.	Chris Brown	Nov-18	Ongoing
		b. As part of the approach to monitoring and managing risk, the risk register should become a stand alone document that is treated as live.	b)Accepted - the risk register will be produced as a separate document and the board will review the risk register no less than every quarter.	Chris Brown	Complete	Risk register has been created as a stand alone register. Was reviewed by i4B management team in April-18 and an update will be submitted to May board meeting
		c. The risk register should be reviewed to ensure that operational risks are incorporated to the extent that they are applicable.	c)Accepted - the board agreed an updated risk register at its January 2018 meeting which includes additional operational risks.	Chris Brown	Complete	Company Risk Register has been created
		d. Mitigation strategies should be reviewed to ensure they are reflective of controls that have been put in place to prevent the risk from occurring, where no such controls exist management should consider implementing new mitigations.	d)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Risk register reviewed and approved at June 2018 Board meeting
		e. All risks should be given individual responsible owners who are responsible for monitoring and managing the risk.	e)Accepted - the board will consider who the holder of each risk in the register should be.	Chris Brown	Complete	Risk register reviewed and approved at June 2018 Board meeting
		f. Risk should be an at least quarterly Board agenda item, as part of which the Board should review key risks, be provided with an update in relation to notable movements on the register and be provided with assurances that key mitigations are operating. This may be in the form of an update report rather than review of the full register.	f)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Company risk register is reviewed quarterly
A4	Code of Conduct - Control design	I4B should introduce a Director's Code of Conduct that is signed by all Directors and includes but is not limited to: The obligations, key roles and duties of Board membership and how these relate to i4B's mission; The ethical values and expectations of the organisation; and The approach to maintaining and ensuring adherence with the Code of Conduct.	Accepted - a code of conduct will be produced to be considered by the Board and Shareholder.	Sadie East	Complete	The Director's Code of Conduct was considered at the June Board meeting and will be submitted to the Shareholder for approval and will be signed by all company directors. Code of Conduct was agreed and signed by all directors in July 2018.
A5	Escalation Policy - Control design	I4B should introduce a formal escalation policy that clearly defines reporting lines, the process for escalation and indicative thresholds and examples for escalation so as to ensure that reporting is consistent and appropriate.	Accepted – i4B will documents its current escalation policy to the Board. It has put in place a monthly meeting with Council Heads of Service to monitor delivery of the SLA which will provide a mechanism for issues to be escalated and will consider what other measures it needs to put in place as the company's work develops.	Sadie East	Complete	The escalation policy was considered at the June board meeting, minor alterations have been made and the policy has been resubmitted to the board for approval. Escalation Policy approved at June 2018 board meeting
A6	Scheme of delegation - Operating effectiveness	The scheme of delegation should become a stand alone document that is maintained for necessary staff changes and periodically reviewed to ensure it remains appropriate and up-to-date.	Accepted - the scheme of delegation will be established as a stand alone document and reviewed by the board no less than annually.	Sadie East	Complete	The Scheme of Delegation was approved at the June Board meeting and will be reviewed annually
A7	Recognition of income and expenditure – Financial procedures - Operating effectiveness	Financial procedures should be clearly mapped depicting the process for recognising the activities of i4B and in particular the approach for recognition of expenditure under the SLA with the Council.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	19/20 Financial Year	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A8	Financial standing orders - Control design	When I4B makes transactions through its own bank accounts and/or ledgers, Financial Standing Orders will become relevant. Whilst some of the Council's financial procedures may remain relevant under the SLA, it is important that I4B considers which of these policies remain relevant, and where its own policies in this regard may be more suitable. In particular, management should give consideration to and create I4B's own Financial Standing Orders at this point in order to ensure cash, payments and receipts are adequately managed.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	19/20 Financial Year	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A9	Revenue monitoring - Control design	Management should continue to develop the revenue tracker, ensuring that this provides sufficient detail of rental income due and receipts collected. Management should also agree with the Board the extent to which this information is to be periodically reported to the Board so as to ensure the Board has sufficient oversight.	Accepted - a revised financial monitoring model and timetable will be developed and agreed with the board and will include the tracking of rents due and received as well as costs.	James Cook	Complete	A new financial model and timetable was agreed at the February 2018 board meeting.

		Recommendation	Draft Response	Owner	Status/Target Date	Update on Action Taken
B1	Distinguishing objectives and implementing an approach for measuring the intended benefits - Control design	It is recommended that management ensure that there is a clear distinction between what are the goals of I4B and what are the goals of the Council such that I4B. Once distinguished management should ensure there is a clear approach against which the overall success of the organisation in delivering against its primary objective can be measured and reviewed on a periodic basis.	Partially accepted - This is a joint responsibility on i4B and the Council. i4B has been set up to support and deliver housing and regeneration benefits to the council. i4B's first business is as a PRS landlord tasked with providing quality accommodation for the Council to nominate homeless customers. i4B is able to quantify the number of properties let to nominated customers and will be able to evidence quality through customer surveys and KPI performance. However, the council has a greater awareness of the benefits of each nomination both in financial and quality of life measurement. i4B has approached the council's housing needs service to work jointly to better evidence benefits. As i4B propose new products it will endeavour to agree with the shareholder the most appropriate measurement for success.	Sadie East	Completed	The Brent Finance Team has carried out work to quantify the financial benefits of i4B to the council. This will feed into the next Company business plan which will be approved by the shareholder in February 2019.
B2	Non-Financial KPIs - Control design	Management should ensure that going forward the newly defined KPIs included in the draft business plan that is to be approved at the January Board meeting are monitored to the Board at each monthly meeting.	a)Accepted - The Board has agreed the new KPIs and will receive reports on performance at every Board meeting.	Chris Brown	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
		All KPIs both financial and non-financial should have quantifiable targets and where I4B is not meeting the targets, explanations should be sought for the cause of the shortcoming and action plans implemented where necessary to address any performance issues identified.	b)Accepted - Targets will be set for the KPIs and performance monitored by the board. Any issues will be highlighted and addressed.	Chris Brown/James Cook	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
B3	PRS project tracker - Control design	Management should examine the possibility of using a system based approach to manage and maintain this information. However, if an appropriate system based approach is not considered the most efficient approach then management should seek to incorporate data validation checks either embedded within the spreadsheet or as review checks to be undertaken as part of the process of updating the PRS tracker in order to give assurance over the accuracy and completeness of data.	Accepted - The Company and the Shareholder are considering systems able to improve data collection, accuracy and transparency. A process mapping workshop took place on 29 January 2018 which contributed to developing requirements for a system.	Chris Brown	Complete	A Microsoft Dynamics case management system for i4B properties and processes has been created. This will improve Brent Council processes and introduce clearer measuring periods for the company's KPIs. The system went live in November 2018. Work is ongoing to improve the accuracy of KPI reporting.
B4	Overall purpose of company - Control design	Management should ensure that purpose of the company is clearly defined with the priority of the company's goals and how they interact with each other clearly laid out in the business plan such that the intended benefits of I4B's existence are clear.	Accepted - This will be reflected in i4B's new and future business plans. As i4B proposes new products it will endeavour to agree with the shareholder the most appropriate measurement for success.	Sadie East	Complete	
B5	Monitoring the proportion of LHA rents - Control design	Management should ensure that the proportion of properties let in excess of LHA rates is monitored and reported to the Board in order to inform future decisions regarding purchasing and tenancy types.	Accepted - This has been added to the suite of KPI indicators as KPI 34	Chris Brown	Complete	
B6	Succession Planning - Control design	Management should create guidance documents for how key performance metrics from the PRS project tracker are collated and how the feedback is communicated to senior stakeholders and the board.	Accepted - resources will be identified to provide this guidance	Chris Brown	Complete	The Microsoft Dynamics system gives board members and officers access to live KPI information and reports.

	Recommendation	Draft Response	Owner	Status/Target Date	Update
C1	i4B should use the findings from the fraud risk workshop to perform a fraud risk assessment. This should capture the key fraud risks and include an assessment of mitigating controls so that residual risks are understood. Given that I4B's business activities are likely to expand in the future as per their business plan, the fraud risk assessment should be refreshed at least bi-annually.	The company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing (as agreed at the First Wave board meeting on 21 March 2018) in order that work can be aligned on fraud risk across both companies.	Sadie	Sep-18	i4B Fraud Risk Assessment undertaken in October 2018. At the October Board the Board agreed to transfer the fraud risks identified to the Company Risk Register. These risks will be reviewed on a quarterly basis.
C2	i4B should also ensure that they have in place a set of fraud and ethics policies to set the tone at the top, such as a counter fraud policy, a fraud response plan, code of conduct for board members, and a whistleblowing policy. Either the Council's policies could be adopted, or I4B could develop their own.	i4B will review Brent Council's fraud and ethic policies with the aim of adopting these for i4B and will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risks.	Sadie	Complete	Policies adopted in September 2018 board meeting

		Recommendation	Draft Response	Owner	Status/Target Date
D1	Basis of Assumptions Setting of the base rental value and property purchase price	Purchase Prices - The 'Historic Acquisition List' tab contains within it an additional set of scaling factors, which are based on off of full average price, rather than being pegged to the Brent price. These are in cells AN182:AN184. These should be used as the scaling factors which are brought through into the 'Key Operational Inputs' tab, cells L99:L101, rather than the scaling factors used at present.	Agreed	Olga Bennet	This will be implemented in 2019/20 financial year
D2	Basis of Assumptions Setting of the base rental value and property purchase price	At present the model overstates rental income. There are two potential ways to remediate this issue: 1). The calculation for the average rent should exclude those properties from Home Counties – Medium and then the 20% uplift becomes a stated assumption. 2). A scaling factor should be calculated for all properties based off on the actual empirical experience, as per the proposed solution for the Purchase Price.	Agreed	Olga Bennet	This will be implemented in 2019/20 financial year
D3	Property Related Inflation Rental growth and house price inflation	From discussions, PwC note that Rental Inflation has been set in line with the LHA assumption at 1.5%. PwC also note that there is a view that HPI would be around 1%, although this hasn't been built into the model. Were this to have been built in though, it would lead to increasing yields over time, as rental growth exceed property growth. This assumption of increasing yields is difficult to justify, as taken to ad infinitum it would lead to rental income exceeding the property value. Additionally, 1% HPI is low compared to market experience. Whilst it is true that there is uncertainty in the market at present, in particular as a result of Brexit, a 1%pa flat growth rate is unlikely to persist over the next 30 years. This is demonstrated with reference to the Nationwide House Price Index, which sets annual house price growth a c2%, despite the current economic uncertainty. As the model forecasts out over 30 years, it is likely that HPI will fluctuate around this point noting that the average HPI over the past 5 years has been c8%pa in London, and c5%pa going back 10 years which includes the 2008 recession that led to significant falls in the housing market. Given this, we have presented sensitivities under various scenario's of HPI and rental growth over the next set of slides. These are done in two ways. The first table for each metric is based on Rental Growth being set to a specific percentage across the whole portfolio, i.e. rental growth equals 4% for all properties. The second table presents a blended rental growth, factoring in the LHA rates. LHA rates cover three quarters of the portfolio, so in this instance, where rental growth is stated as 4%, that is 4% on a quarter of portfolio and 1.5% on the remaining three quarters. This is therefore a blended assumption of 2.125%. The HPI assumptions used in both tables are consistent, as the values of the house will be set by market conditions rather than being influenced by the LHA rates.	House price inflation will be built into the model. Given the current economic climate, the i4B Board has agreed a prudent 1% house price inflation assumption and an average 1% LHA rate increase.	Olga Bennet	House price inflation will be implemented in 2019/20 financial year.

D4	Potential Errors	Incorrect formulae (logic or design), inconsistent use of assumptions, etc. These should be reviewed as a priority and changed accordingly, otherwise they may lead to financial impacts on the model, especially should assumption change going forwards. These should be resolved.	Any comments in this category will be implemented in the next model refresh.	Olga Bennet	This will be implemented early in 2019/20 financial year
D5	Design issues	Areas of the model which are not consistent with documentation, or may lead to potential errors. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year
D6	Best Practice	Best Practice. Model design which is not consistent with our interpretation of best practice. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed in 2019/20 financial year
D7	Cosmetic	Cosmetic. Typos and inconsistent references used within the model. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed in 2019/20 financial year

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**Internal Audit Follow up Review (i4B) – Governance RM and FM Action Plan**

Ref	Recommendation	Priority*	Owner and Due Date	Status
1	<p><b><u>Policies – completeness and maintenance</u></b>            In order to ensure that I4B policies are relevant, complete and up -to -date, management should:</p> <p>a. Consider the need for the policies listed in the Shareholder's Agreement, and either produce policies in these areas or amend the shareholders' agreement as required.</p> <p>b. Introduce a consistent approach to the review of policy documentation including the frequency of review, responsibility for review, and approach to ensuring version control.</p> <p>c. Undertake a review of all policies in order to ensure that the content remains applicable now that i4B is operational.</p>	Medium	Sadie East, Head of Transformation  May 2018	<p><b><u>Implemented</u></b></p> <p>a. Company policies have been reviewed and a number of minor alterations made. Policies will be resubmitted to a representative from the Board for approval and then distributed to Service Areas Leads and i4B commissioned services.</p> <p>b. Complete. All company policies will be reviewed annually; the next scheduled review is March 2019.</p> <p>c. All company policies will be reviewed annually; the next scheduled review is March 2019.</p>
2	<p><b><u>Ongoing review of the SLA</u></b>            A procedure for ongoing review of the effectiveness of the SLA should be introduced whereby the SLA is reviewed by a specified individual on at least an annual basis. This review should include:</p> <ul style="list-style-type: none"> <li>• Whether the council is providing services to i4B in the most effective and efficient way possible, including performance against a series of KPIs;</li> <li>• Whether the council remains the most effective service provider for the listed services; and</li> <li>• Whether, given changes in the nature of i4B's business, any services should be added to the SLA</li> </ul>	Medium	Sadie East, Head of Transformation  October 2018	<p><b><u>Implemented</u></b></p> <p>The SLA is monitored at monthly meetings between service leads and i4B. A monthly report from these meetings is provided to the board.</p> <p>The board receive monthly performance updates on performance against the SLA.</p> <p>The SLA is reviewed and updated on an annual basis.</p>
3	<p><b><u>Risk Management</u></b>            a. I4B should create a risk management framework that clearly depicts;            - organisations approach to risk management            - organisations risk appetite            - approach to documenting and recording risk on the risk register            - responsibilities in relation to the management and identification of risk            - mechanism for scoring risks            - responsibilities for maintaining and updating the register            - mechanism for gaining assurance over the operating effectiveness of the mitigations            - involvement of the board in risk management and review of the risk register            b. As part of the approach to monitoring and managing risk, the risk register should become a standalone document that is treated as live            c. The risk register should be reviewed to ensure that operational risks are incorporated to the extent that they are applicable            d. Mitigation strategies should be reviewed to ensure they are reflective of controls that have been put in place to prevent the risk from occurring, where no such controls exist</p>	Medium	Chris Brown, Programme Manager-PRS Portfolio Acquisitions  November 2018  May 2019	<p><b><u>Partially Implemented</u></b></p> <p>a. Officers will consider a proposal to create a risk framework.</p> <p>b - f A standalone risk register has been created. The risk register is a live document and reviewed by the Board every quarter.</p>

Ref	Recommendation	Priority*	Owner and Due Date	Status
	management should consider implementing new mitigations. e. All risks should be given individual responsible owners who are responsible for monitoring and managing the risk. f. Risk should be quarterly board agenda item, as part of which the board should review key risks, be provided with an update in relation to notable movements on the register and be provided with assurances that key mitigations are operating. This may be in the form of an update report rather than review of the full register.			
4	<b><u>Code of conduct</u></b> I4B should introduce a Director's Code of Conduct that is signed by all directors and includes but is not limited to: - the obligations, key roles and duties of board membership and how these relate to i4B's mission - the ethical values and expectations of the organisations; and - the approach to maintaining and ensuring adherence with the code of conduct.	Low	Sadie East, Head of Transformation  June 2018	<b><u>Implemented</u></b> A Code of Conduct was agreed and signed by all directors in July 2018.
5	<b><u>Escalation policy</u></b> I4B should introduce a formal escalation policy that clearly defines reporting lines, the process for escalation and indicative thresholds and examples for escalation so as to ensure that reporting is consistent and appropriate.	Low	Sadie East, Head of Transformation  June 2018	<b><u>Implemented</u></b> An escalation policy was agreed by the board in July 2018.
6	<b><u>Scheme of delegation</u></b> The scheme of delegations should become a standalone document that is maintained for necessary staff changes and periodically reviewed to ensure it remains appropriate and up to date.	Low	Sadie East, Head of Transformation  May 2018	<b><u>Implemented</u></b> A Scheme of Delegation was approved at the June 2018 Board meeting and will be reviewed annually.
7	<b><u>Financial procedures</u></b> Financial procedures should be clearly mapped depicting the process for recognising the activities of i4B and in particular the approach for recognition of expenditure under the SLA with the Council.	Low	James Cook  June 2018  Revised target date: 19/20 Financial Year	<b><u>Partially Implemented</u></b> There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.  Policies such as a bad debt policy are currently being drafted.

 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26th September 2019
	<b>Report from the Chair of First Wave Housing Limited</b>
<b>Report on First Wave Housing Limited</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1. Risk Register 2. Risk Management Framework
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Peter Gadsdon FWH Director Email: <a href="mailto:peter.gadsdon@brent.gov.uk">peter.gadsdon@brent.gov.uk</a> Tel: 020 8937 6095

## 1.0 Purpose of the Report

1.1 This report provides the Audit and Standards Advisory Committee (the Committee, ASAC) with an update on First Wave Housing Limited's (FWH) business plan, recent performance, risk register, and audit arrangements.

## 2.0 Recommendation(s)

2.1 The ASAC is asked to note:

2.1.1 FWH performance.

2.1.2 The update to the FWH risk register.

2.1.3 The update on recent FWH audits, and progress towards implementing previous audit recommendations.

## 3.0 Update on Business Plan

3.1 The 2019/20 FWH Business Plan was approved by the Guarantor in February 2019. The business plan outlined FWH's strategic plans for 2019/20:

- Tenure and rent rationalisation within its portfolio
  - Capital investment
  - The sale of four properties via mutual agreement which are within areas undergoing regeneration
- 3.2 A stock condition survey (SCS) has been carried out on FWH stock, this provided an assessment of investment requirements over 30 years. The SCS and local knowledge have been used to create a 30-year investment plan. The investment plan is a key focus for the FWH board. The key areas of investment include resolving historic poor building and maintenance practices by BHP in South Kilburn, refurbishment of market rented properties, and a provision for the purchase of new build homes, as well as cyclical maintenance works.
- 3.3 Brent Finance are currently confirming the affordability of the programme of plan and any funding gaps. However, FWH's cashflow forecast over the next 5 years is relatively favourable. It is therefore less critical at this stage to seek alternative financing models to carry through with the investment plan but there is a likelihood that capital funding will need to be raised over the medium term. One option that is being considered is renegotiating the terms of the loan.
- 3.4 The 2019/20 Business Plan also highlighted that the Guarantor was exploring opportunities to align i4B Holdings Ltd and FWH. This included looking at the possibility of merging the two companies. The Guarantor has determined that merging the two companies is not viable. This is primarily because i4B is a company limited by shares and FWH is a company limited by guarantee

#### **4.0 Performance**

- 4.1 FWH has 329 tenanted properties. Of this 329, 89 are at social rent rate, 25 are at intermediate rent, and 45 are at PRS /market rent.
- 4.2 FWH also has 170 Settled Homes. Settled homes are a form of temporary accommodation. They are let on assured short hold tenancies, with rent levels slightly below LHA rates (the weekly rent for a two-bedroom property is £300). When business plan surpluses are sufficient, properties will be converted, on an incremental basis, to social rents, on assured tenancies.
- 4.3 The annual rent roll is £4.2million. There are also two commercial properties within the portfolio. FWH has not purchased any new properties, therefore, performance is only based on housing management.
- 4.4 Performance in June 2019 exceeded the monthly performance target for rental income collection of 98.5% and the year to date target of 99.5%. This is similar to February 2019, where the performance was 107% (due to arrears collection).
- 4.5 There were repair 20 jobs completed outside of the required service standards in February 2019. There was a combination of factors driving this result, including:
- Backlog of appointment responses, caused by insufficient resources across the plumbing trade.
  - Transitional issues relating to the introduction of a new contractor system.

- 4.6 Since February 2019, repairs performance has improved. In June 2019, 100% of emergency repairs were completed in less than 24 hours. Furthermore, in June 2019, 88% of qualifying repairs were completed within 14 days – this compares to a target of 85%. Year to date performance for qualifying repairs is 88%.
- 4.7 In February 2019, there were two void market rent voids. It took on average 162 days to let the two properties. Turnaround was worse than target of 21 days due to difficulties in competing with similar market rented products on the market. Performance has improved significantly. In June 2019, 4 properties were let; 3 Settled Homes and 1 PRS property (formerly Intermediate and Market Rent). The 1 PRS property let was a minor void and it took 16 days to let against a target of 21 days. The 3 Settled Homes properties were also minor voids and took an average of 37.3 days. This was due to delays in sourcing suitable applicants from the Private Rent Sector Team in Housing Needs. Officers are currently reviewing the settled homes allocation process to improve targeting of suitable applicants.

## **5.0 Risk Register and Risk Management Framework**

- 5.1 The Company's Risk Register can be found in Appendix 1 and the Risk Management Framework in Appendix 2.
- 5.2 Since the last meeting with the Committee, no new risks have been added.
- 5.3 The following risks remain as live issues and are being monitored as such:
- There is a risk of unforeseen costs and loss of income as a result of poor quality housing stock.
- 5.4 The following risks have been closed:
- There is a risk of fraud to the Company - First Wave may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to the Company as a result of risks not being appropriately treated. A Fraud risk audit was carried out. As a result, FWH has a good understanding of the fraud risks it faces. Separate fraud risks were added last year.
- 5.5 The following risks have increased in likelihood:
- There is a risk that void periods will exceed the business plan.
- 5.6 The following risk mitigations have been updated:
- There is a risk of fraud to the Company through property disposals - FWH will mitigate this risk through the development of an Asset Disposal Policy. This will consider the Council's checks, and board and shareholder approval for the disposal of any company assets. The policy was submitted to and approved by the guarantor.

5.7 A Risk Management Framework (Appendix 2) was created to accompany the Company's Risk Register. The framework outlines the Company's process for identifying, measuring, managing, monitoring and reporting risks. It also discusses the Company's risk appetite and the Company's ambition to invest in the current stock.

## 6.0 Responsive Repairs Audit Update

6.1 The purpose of this audit was to review the design and operating effectiveness of controls in Brent's housing responsive repairs system, to ensure that work allocated to contractors is provided in line with expected standards, within budget, and payments for work are made appropriately. The audit placed particular emphasis on three key scope areas: Governance, Variations and Payments and Contract Management and Monitoring.

6.2 While this review was carried out at the request of First Wave Housing, the assurance statement, findings, risks and recommendations fall to the Council's Housing Management department to accept and implement as necessary. FWH's risk is contained within the annual fee per property that is paid for repairs. Although controls have been established to provide overall governance and oversight over the repairs process, the nature of findings raised under the Variations and Payments and Contract Performance and Monitoring areas represent instances where governance can be enhanced.

6.3 The Responsive Repairs Report has been distributed to Sean Gallagher (Head of Housing Management) and Hakeem Osinaike (Operational Director for Housing) for action.

## 7.0 Internal Audit Update

7.1 In April 2019, FWH Board agreed a programme of internal audits for 2019/20:

Table 1 – FWH internal audits

Audit	Scope	Status
Rent Collection	To include strategy, performance, debt management, management information and reporting.	Yet to commence

**Report sign off:**

**MARTIN SMITH**

Chair of First Wave Housing Limited

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
1	There is a risk of unforeseen costs and loss of income as a result of poor quality housing stock	The potential consequence of this risk materialising is that the Company's income is insufficient to cover the expenditure required to maintain good quality housing stock	First Wave	Operational & Financial	3	4	12	In the Company's 2019-20 Business Plan the Board has allocated extra resource for works in years 1, 2, and 3 for 110 properties. This mitigates the risk of potential unforeseen costs resulting from poor housing stock.  A stock condition survey has also been carried out, figures still need to be analysed but this will further mitigate the risk.	2	4	8		Open	17/01/2019. New mitigation. Post mitigation impact reduced from 4 to 3.  14/05/2019. The board received the stock condition survey April 2019 and an investment proposal with 7 investment streams. The investment required for FWH stock is significant. There is a higher risk that the business and financial plan will be unable to cover all the costs. Finance are presenting the financial analysis to the Board and revising the business plan to understand how the stock investment can be afforded.  10/06/2019. There is the potential that the company cannot afford the stock investment. Finance presented a financial analysis to the board and will continue to investigate the options available.
2	There is a risk of reduction in income in market rent because the properties cannot achieve market rent yield	The business plan assumes that market rent achieves 20% uplift over LHA	First Wave	Financial	5	2	10	Where market rented properties are not achieving LHA rent levels, the 2019/20 Business Plan proposes to amend the tenure of these properties once they become void in order to increase rental income. 3 properties have now been let on LHA rates as PRS.	4	1	4		Open	17/01/2019. New mitigation. Risk reduced.
4	There is a risk that First Wave policies and procedures specific to the non-social housing tenures e.g. market rent and intermediated rent are not applied appropriately	The failure to adhere to core policies and procedures could lead to a financial and reputational risk to the company	First Wave	Operational & Financial	3	3	9	Brent Housing Management have advised they will undertake a policy and compliance audit and consider commissioning an internal audit programme through PwC	2	3	6		Open	14/05/2019. FWH has an opportunity to standardise their AST (tenancy agreement) and consider the letting standard for current properties. Currently it appears intermediate rent letting standard is the highest and market rent are let at the social housing standard. There is custom and practice with furnished accommodation which means FWH are paying for furniture where perhaps a grant from TA or welfare system would be more appropriate.
5	There is a risk that business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection	The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	First Wave	Financial	2	3	6	Rent collection rates are monitored at monthly First Wave board meetings and remain consistent at around 100%.  Brent Housing Management who deliver housing management services for First Wave have in place an action plan for Universal Credit implementation	2	3	6		Open	14/05/2019. Audit on rent collection identified for 2019/2020
6	There is a risk that void periods will exceed the business plan	The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.	First Wave	Financial & achieving operational objectives	2	3	6	First Wave has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors.	5	3	15		Open - live risk	14/05/2019. Voids rates are circa 10% which is more than the business plan assumptions. The costs for voids are higher than assumptions and the rent loss is higher than assumptions - this risk has occurred.  10/06/2019. There are currently 4 void properties for FWH. We will work with Housing Management to understand how this can be better mitigated in the future.
7	There is a risk that First Wave is deemed to have failed a statutory health and safety obligation as a landlord	The SLA places a requirement on Brent Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.  Failure to comply with H&S requirements increases the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board.	First Wave	Financial & Reputational	1	5	5	Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring include some key aspects including gas, complaints and customer satisfaction.	1	5	5		Open	14/05/2019. The council has recently had an audit on its asset management systems and a number of improvements have been identified. FWH and i4B should participate in discussions around the key data basis of CRM, Northgate and Keystone.

8	First Wave is deemed to have failed a statutory requirement in its corporate role	The company must comply with regulatory and best practice requirements around its own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman and Homes England. There could be a residual risk in relation to the above occurring from the company previously being known as Brent Housing Partnership and relevant legal and statutory documents not being changed to reflect the company's new name.  The consequences of other statutory failures may be fines and/or reputational damage to First Wave.	First Wave	Financial & Reputational	1	5	5	The Board is putting in place suitable policies and procedures to ensure regulatory compliance, e.g. an escalation policy, scheme of delegation, risk management, and internal audit arrangements.  A thorough transformation programme was undertaken when BHP became First Wave to ensure that all legal and statutory documentation was changed.	1	5	5	Open	14/05/2019. The council has recently had an audit on its asset management systems and a number of improvements have been identified. FWH and i4B should participate in discussions around the key data basis of CRM, Northgate and Keystone. - Compliance is closely linked to asset management (gas FRAs, electric, legionella, EPC and asbestos)
9.1	There is a risk of fraud to the Company	Subletting of properties by tenants.  Letting of properties by Council or maintenance staff for personal gain during a void period.	First Wave	Fraud	2	2	4	BHM will prioritise regular visits to 'high risk' properties and will use intelligence from the Council's Audit and Investigation department to inform this.  Property void times will be reported to the board and BHM will work to keep void periods low.  The board will be provided with detailed reporting on void checks undertaken by BHM.	1	2	2	Open	Added from Fraud Risk Assessment
9.3	There is a risk of fraud to the Company	Diversion of tenant rent payments by staff. Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.  Set up of invalid/fictitious suppliers by staff for personal gain. Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not being received.	First Wave	Fraud	1	3	3	Rent collection rates are monitored by the Board. Rent arrears write-offs are submitted to the board for approval, after going through the Council's internal procedures.  Payments from FWH are made through the Council's payment system and as such, are subject to Council policies and procedures.	1	2	2	Open	Added from Fraud Risk Assessment
9.4	There is a risk of fraud to the Company	Tenants misrepresenting their circumstances during the eligibility assessment process.  Proceeds of crime being used to purchase properties.	First Wave	Fraud	1	3	3	FWH will review Brent Council's Right-to-Buy Policy with a view of adopting it.  Board approval will be sought on any right-to-buy applications and these will be considered alongside the Council's current processes. The Council has a two stage approval process in place - if the property purchase price is above £500K it is approved at Operational Director level, and if it is below £500K it is approved at HoS level.  Brent Housing Management staff can refer Right-to-Buy applications to the Council's Fraud and Investigation department if required.	1	3	3	Open	Added from Fraud Risk Assessment
9.5	There is a risk of fraud to the Company	Repairs/maintenance/major works – overcharging or charging for fictitious works.  Collusion between staff/ board members and buyers to dispose of properties at under market value.  Undeclared conflicts of interest between staff/board members and buyers.	First Wave	Fraud	1	3	3	BHM will implement a post inspection regime to ensure that the repairs and major works completed comply with the cost incurred. A review will be undertaken into any property which has more than 7 repairs in a 12 month period. The average cost of repair per property will be regularly reported to the board.  FWH will develop an Assets Disposal Policy. This will consider the Council's checks, and board and shareholder approval for the disposal of any company assets. The policy will be submitted to the guarantor for approval.	1	3	3	Open	Added from Fraud Risk Assessment  10/06/19 - Asset Disposal Policy will be brought to the attention of the guarantor at the next guarantor's meeting.

# First Wave Housing

## Risk Management Framework

April 2019



### Document Master Sheet

Amendments to this document detailed below:

Version	Author	Date	Review Date	Comment	Approved by
1	Khadija Koroma	April 2019		Framework created	Draft

## 1.0 Introduction

1.1 The risk framework was created to accompany the risk register, which is a standalone live document.

1.2 The risk framework outlines FWH's process of:

- Identifying
- Measuring
- Managing
- Monitoring and Reporting

The framework also discusses the risk appetite of the FWH Board.



1.3 The risk register identifies different types of risks, and the assumptions made in the business plan in relation to that risk. It then highlights the type of risk it is, e.g. financial, reputational etc.

## 2.0 Identifying

2.1 The risk register already identifies a number of risks.

2.2 Officers meet on a quarterly basis to consider the risks, and to add new risks that may arise as the business move forward. The new risks come as a result of new initiatives of the company, e.g. revisions of business plan or revisions of investment plan.

2.3 Risks relating to revisions of business plan are identified through the business planning process. Anticipated changes to the Company's risks as a result of the new business plan are discussed by the Board as part of the process.

2.4 Council representatives, who are specialists and experts in various aspects of the Company's work will identify external forces and bring it forward to be added to the risk register. This includes changes in the external environment, changes to law and

government policy etc. This is fed into the risk assessment each quarter or brought to the attention of officers and the Board through timely communications.

### **3.0 Measuring**

- 3.1 The risk register scores the risks in 2 pre-mitigating categories; 'Likelihood' and 'Impact' which then multiplies to generate a risk score. It then outlines the ways in which the risk can be mitigated. After this, there is another set of scores for the 2 post-mitigating categories ('Likelihood' and 'Impact'), and a new risk score is calculated. The risk status is then shown and comments are made regarding the risk. The pre-mitigating and post-mitigating scores are both calculated in the same way.
- 3.2 The likelihood is scored out of 5:
- 1 – Highly unlikely/improbable
  - 2 – Not very likely
  - 3 – Likely/Possible
  - 4 – Very likely
  - 5 – Almost Certain
- 3.3 The impact is scored out of 5:
- 1 – Insignificant
  - 2 – Minor
  - 3 – Moderate
  - 4 – Major
  - 5 – Catastrophic
- 3.4 The risk score is then scored out of 25. This is done by multiplying the likelihood and the impact. If the likelihood of a risk is 2, and the impact is 4, then the overall risk score will be 8.
- 3.5 Each score is decided through discussions between experts working for and with FWH. The experts are able to give the likelihood of a risk, and the impact said risk could have on the business. The risk score is then calculated and the expert gives advice on how the risk can be mitigated and how the mitigations will affect the post-mitigating risk scores.

### **4.0 Managing**

- 4.1 It is important that FWH effectively manages the risk register to insure that officers are always kept up to date with the risks.
- 4.2 Changes to risks can be identified through the Key Performance Indicator (KPI) reports. The live Dynamics report produces an up to the minute data. This highlights

any areas where the performance is not meeting its target, and actions can then be taken to ensure that the risk shown on Dynamics does not become an issue.

- 4.3 Risks are managed at both officer level and at Board level. The officers manage their individual tasks, and the Board manages the overall risk register as the register is on the agenda on a quarterly basis. The Board ensures that actions are taken by officers and these actions are logged and tracked through the Forward Plan and the Action Log.
- 4.4 Through the SLA officer meetings, risks from service providers are discussed. This means that FWH can assess if risks are being effectively managed by service providers and whether the risks are likely to increase or decrease.

## **5.0 Monitoring and Reporting**

- 5.1 Risk are monitored through the KPIs, which have 34 different well-defined indicators that are monitored on a monthly, quarterly, or annual basis, depending on the individual KPI.

Officers responsible for the individual indicators monitor it and contribute to that KPI report that is provided to the Board each month. These reports highlight the performance of key areas, and supplementary reports are also provided for issues that need more consideration.

- 5.2 Audit govern the Board's approach to identifying, monitoring and maintain risks.

## **6.0 Risk Appetite**

- 6.1 FWH is a registered provider and a wholly owned council company and therefore has to manage risk in line with the expectations of Homes England and its Guarantor, the London Borough of Brent.
- 6.2 FWH housing portfolio of 329 residential properties and 2 commercial properties is around twelve years although until October 2017 the portfolio was managed as part of a much larger portfolio of FWHs predecessor Brent Housing Partnership.
- 6.3 The investment strategy over the previous years and the age of the FWH portfolio means that the properties are requiring investment to maintain the asset. The Board is therefore focused more on identifying the funds from within its business plan to invest in its homes rather than an ambitious plan of growth.
- 6.4 The company is scrutinised for its contribution to providing good quality, affordable accommodation by the guarantor and much of the stock is subject to affordable rent guidelines and Homes England grant conditions.
- 6.5 The Company's loan arrangements are at market rates meaning the current business model is one based on an outlook of small financial margins considering the required level of stock investment.
- 6.6 The company is focused on delivering outputs and quality services to its customers. A low risk strategy has been adopted which provides the company, lender and

shareholder greater reassurance in the company's ability to deliver sustainable outcomes.

- 6.7 The business does not have a growth strategy and any future growth would be on project by project appraisals and each growth project would need to support the core business.
- 6.8 The Board is placing significant emphasis on establishing a rigorous monitoring regime and is seeking swift and continuous improvements to establish the controls the smaller portfolio requires. This will inevitably be seen as cautious approach towards risk.
- 6.9 The board has taken comfort from the success of the management agents in key areas such as rent collection and responsive repairs. Some of the key risks in the business have been mitigated through fixed fees for services. The Board is currently revisiting its financial model, ensuring rents and service charge income are appropriate to manage the interest repayments, the costs of service delivery and a significant property investment programme.
- 6.10 The Board has established SLAs with LB Brent, limiting the company's exposure to risk and protecting some of the Company's financial assumptions.
- 6.11 The Board recognises that its core affordable housing product offers only a marginal opportunity to support capital investment and maintenance. For this reason, it is likely the board will be very cautious and risk adverse in reducing rents any further. It is possible the Board will seek to manage some of its risks and need for stock investment by maximising rents where it is able.
- 6.12 The Board's business model is currently being considered by the Board and the setting of assumptions on rent collection, bad debt and void rates will be indicators of the company's risk appetite.

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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> <b>26 September 2019</b>  <b>Report from the Director of Legal HR Audit and Investigations</b>
For Information	Wards Affected: ALL
<b>Internal Audit Progress Report for the Period April – August 2019</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1. Completed Audits from 2019/20 Audit Plan (A) 2. Audit Current Status (B)
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations 020 8937 6526, <a href="mailto:Michael.Bradley@brent.gov.uk">Michael.Bradley@brent.gov.uk</a>

## 1. Summary

- 1.1. This report provides an update on progress against the Internal Audit Plan for the period 1 April 2019 to 31 August 2019.

## 2. Recommendations

- 2.1. The Audit Committee note the content of the report.

## 3. Internal Audit Performance

- 3.1 During this period Internal Audit have:

- Completed seven audit reviews and advisory pieces of work;
- Completed 12 follow up reviews;
- Completed two school audits from this year's program of 10 school audits and
- Completed grant claim certifications for the Troubled Families Programme.

The team has also been able to react to urgent management requests when required. Further details are set out below.

- 3.2 The team has been functioning below its budgeted resource and this was supplemented by temporary staff in the final quarter of 2018/19. Recruitment of new permanent staff has now brought increased stability and performance with two new auditors joining the team, one in April and a further one in July. The team continues to be supplemented by a contracted resource from PWC.

**Audit Work Undertaken**

- 3.3. The Internal Audit Plan for 2019/20 initially comprised 55 audits excluding school reviews, follow ups and advisory work.
- 3.4 Seven audits have been completed with a further two draft reports issued awaiting a response from management. A further 17 are nearing completion or are in progress. Resources have been allocated to allow full completion of the plan.
- 3.5 For each audit where controls have been analysed and a report agreed with management, previously an assurance opinion was given. This grading mechanism provided an indication of the level of confidence in the controls in operation and the extent to which they are being applied. For 2019/20 this grading system is no longer being used and an indication of the level of confidence is now gained by examining the number of issues raised and their associated risk level.
- 3.6 Details of the audits and the key findings are set out in Appendix A. Details of the audits currently in progress are set out in Appendix B.

**Follow up Reviews**

- 3.7 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented.
- 3.8 During the period, 12 follow up reviews have been completed. A further 10 are currently in progress. Details of the completed follow up reviews are set out in Appendix C.
- 3.9 Of the 12 completed, three had high risk issues and associated actions that had not been implemented or only partially implemented. Details of these actions are included in Appendix C.

A total of 95 management actions have been reviewed (high risk actions are shown in brackets):

Implemented	Partially Implemented	Not Implemented	No Longer Relevant
70	19	5	1

- 3.10 Where actions remain partially or not implemented, revised completion dates have been agreed with management when Audit will revisit to confirm implementation

where appropriate.

## **Schools**

- 3.11 The program of school audits focuses on governance, financial processes and accompanying back office resources.
- 3.12 The first two reviews have been completed and raised a number of findings including:
- Missing references and signed employment contracts for recent starters;
  - Overpayments of salary to members of staff;
  - Absence of formal induction or skills assessment for new governors;
  - No declarations of interest for Committee members, and
  - Asset register did not contain all high value assets.
- 3.13 The remaining school reviews are scheduled to take place during quarters three and four. There is also a follow up review scheduled in September at Leopold Primary School, following a 'No Assurance' rating given last year. Internal Audit are also attending Teachers' Panel and School Information Exchange meetings to discuss the audit process, key risk areas and any other concerns raised by schools.

## **Customer Satisfaction**

- 3.14 Management are asked to provide feedback on individual audits completed and the feedback is incorporated into the continuous improvement of the service. Questionnaires issued at the end of each audit ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made.
- 3.15 One questionnaire has been returned. This was very positive with all responses satisfied or very satisfied. However, due to this very low return rate only limited reliance can be placed on the result. Audit will continue to encourage clients to respond on their experience of the service and are looking at alternative ways to receive feedback in the future.

## **4. Financial Implications**

The report is for noting and so there are no direct financial implications

## **5. Legal Implications**

The report is for noting and so there are no direct legal implications

## **6. Diversity Implications**

None

## **7. Background Papers**

None

**8. Contact Officer Details**

Michael Bradley, Head of Audit & Investigations, 7th floor, Brent Civic Centre  
Telephone – 0208 937 6526

<p><b>Debra Norman,</b> <b>Director of Legal, HR, Audit and Investigations</b></p>
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## Appendix A

### Completed Audits from 2019/20 Audit Plan

Audit Title	Scope	Key Findings
IR35	Governance Review of Existing Engagements Review and Monitoring of Future/Ongoing Engagements Monitoring of Council Establishments	Four medium risk findings: <ul style="list-style-type: none"> <li>• Insufficient oversight of individuals due to documents not being retained.</li> <li>• lack of evidence held on file regarding the decision for IR35.</li> <li>• Incomplete listing of Agency workers</li> <li>• Not all “temporary workers” have documented IR35 assessments.</li> </ul>
Virtual School	Compliance with DfE; Management reporting; Key data and information; Training; Personal Education Plans: Pupil premium, and SEND (Special Educational Needs or Disability).	One advisory risk finding: The inconsistency of information across the various systems.
Cemeteries	Buying a Grave; Income Management; Contract Management; Ownership of a grave; Health and Safety, and Transfer of waste.	Two medium and one low risk issue identified: Medium: <ul style="list-style-type: none"> <li>• Information not being received regularly from Contractor to ensure work is being carried out to required standards.</li> <li>• Cheques received by the Registrar are not always banked on a weekly basis.</li> </ul> Low: <ul style="list-style-type: none"> <li>• Maintaining manual diaries and a computerised system may create issues over storage and reconciliation.</li> </ul>
Disabled Facilities Grants	Policies and Procedures; Application Screening; Contracts; Payments, and Management Information.	Two low risk findings: <ul style="list-style-type: none"> <li>• No procedures in place for the DDAG.</li> <li>• No improvement plan in place to raise service performance to meet KPI targets.</li> </ul>
Discretionary Housing Payments	Policies and procedures Eligibility criteria and exclusions Processing of application Awarding of DHP	Four medium risk issues identified: <ul style="list-style-type: none"> <li>• The local DHP guidance had not been updated since 2012;</li> <li>• Lack of segregation of duties in processing and awarding a DHP payment;</li> <li>• No evidence that a review is being carried out before extending DHP awards:</li> </ul>

	Payments, and DHP returns and management information.	• No evidence of actions having been taken to recover overpayments.
Brexit Preparation	Governance and Mobilisation Brexit Impact Areas.	Two high risk issues: <ul style="list-style-type: none"> <li>• Brexit governance and tracking and</li> <li>• risk identification, assessment and alignment;</li> </ul> Two medium risk issues relating to the specific Brexit impact areas of: <ul style="list-style-type: none"> <li>• EU workers and EU Settlement Scheme and</li> <li>• supplier risk;</li> </ul> Two low risk issues: <ul style="list-style-type: none"> <li>• modelling implications for budgets and business plan and</li> <li>• Brexit continuity and wider emergency response;</li> </ul> One advisory issue of targeted external communications.
Barham Park Accounts	n/a	Review of the annual Barham Park Accounts.

## Appendix B

Audit	Current Status
Joint Front Door	Draft Report issued to Management
P2P Program	Draft Report issued to Management
I4B Acquisitions	Fieldwork Completed
London Borough of Culture	Fieldwork Completed
Bailiffs	Fieldwork Completed
IT Licensing	Fieldwork Completed
Licensing of Landlords	Fieldwork Completed
Recruitment and Retention	Fieldwork Completed
Procurement	Fieldwork in progress
Car Parks	Fieldwork in progress
General Ledger	Fieldwork in progress
IT Access and Identity Management	Fieldwork in progress
Prevent	Fieldwork in progress
Payroll	Fieldwork in progress
Staff Benefits	Fieldwork in progress
IT Sourcing & Procurement	Terms of Reference Issued to Management
Safeguarding Partnerships and Strategy	Draft Terms of Reference issued to Management
VAT	Draft Terms of Reference issued to Management
First Wave Housing Rent Collection	Draft Terms of Reference issued to Management

## Appendix C

### Follow Up Reviews

Audit Title	Management Actions			
	Implemented	Partly Implemented	Not implemented	No Longer relevant
RBV Benefits	1	6 (1)		
Safeguarding Adults	8			1
Single Pathway	8		2 (1)	
Libraries Stock Control		3		
Trading Standards	1	1	1	
Digital Strategy	10	1		
Emergency Planning	2			
Property Payments	13			
Licensing	14	6 (2)		
Community Safety	3	1		
Corporate Governance – Decision Making	9	1	2	
Data Security	1			

Numbers in brackets show where 'high' risk actions have not yet been fully implemented. Details are listed below:

#### **RBV Benefits**

The high priority finding related to Management ensuring sufficient information is provided to applicants to ensure compliance with GDPR. The follow-up review identified that this has been raised with the software supplier IEG4 but is still awaiting a definitive response. Whatever the outcome from IEG4, the information made available to the customer about how their data is held and used will be reviewed. Revised target date 30 September 2019.

#### **Single Pathway**

The high priority finding related to Management producing and implementing a risk register in relation to the 'Single Pathway' programme. Risk Register is under development with a revised target date of 31 August 2019.

**Licensing**

The high priority actions partially implemented relate to ensuring fees are documented to enable prompt enforcement action where fees have not been received to be taken. Also management were to ensure that regular reconciliations take place between the fees spreadsheet and the online register to ensure invoices are raised for all premises within the borough.

Fees are now documented on Tascomi and Management are able to run reports of fees due but further training is required for staff. Further development of the annual fee process on Tascomi is required in order to successfully complete regular reconciliations. Revised completion date of March 2020.

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 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b> 26 September 2019</p> <hr/> <p><b>Report from the Director of Legal, HR, Audit and Investigations</b></p>
<p><b>Counter Fraud Quarterly Progress Report: Quarter 12019-20</b></p>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	NIL
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations 020 8937 6526, <a href="mailto:Michael.Bradley@brent.gov.uk">Michael.Bradley@brent.gov.uk</a>

**1. Summary**

1.1 This report provides a summary of the counter fraud work undertaken for the period 1<sup>st</sup> April 2019 to 30<sup>th</sup> June 2019.

**2. Recommendations**

2.1. That the Audit and Standards Advisory Committee notes the counter fraud work in the period of this report.

**3. Internal Fraud**

3.1 The total referrals of alleged internal fraud for Q1 are consistent with the previous year. This includes whistleblowing referrals and a range of case types that includes financial, staff conduct and procedural irregularities. Our proactive work and our review of the National Fraud Initiative (NFI) data-matched reports are covered in the 'proactive' section of this report. Internal fraud typically has the fewest referrals in any period but is generally more complex in nature.

The table below sets out key figures in this area.

Table A – Internal Fraud

Internal Fraud	2019/20 Q4	2019/20 Q3	2019/20 Q2	2019/20 Q1	2018/19 (full year)	2017/18 (full year)	2016/17 (full year)
Open Cases b/f				5	11	16	22
New Referrals				11	28	35	28
Closed Cases				7	34	40	34
Open Cases c/f				9	5	11	16
Fraud/Irregularity Identified*				2	11	10	12
Dismissal				1	2	1	1
Resignation				1	2	1	2
Warning				0	3	2	1
Other Outcome (see below)				0	4	7	8

\* Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action)

3.2 There has been an increased presence on the council's website that enables members of the public to report all suspected fraud. Additionally, fraud awareness sessions have been delivered across a number of Council departments.

3.3 One internal case that was concluded in April 2019 is worth noting. It was a Blue Badge misuse case by a member of staff. The offence was identified in September 2018 during one of the team's on-street enforcement operations. The individual resigned pending a disciplinary hearing and subsequently pleaded guilty to a misuse offence under the Road Traffic Act. They were sentenced to a £500 fine (half the maximum) and ordered to pay £1,092 costs and a £50 victim surcharge.

3.4 Another case worth noting was a new member of staff dismissed for recruitment irregularities and providing false information. They were dismissed in Q4 of the previous year and appealed, which in Q1 was not upheld.

3.5 There were eight referrals logged in Q1 that related to whistleblowing from a variety of sources. Due to the confidential nature of the type of referrals, it is not appropriate to provide details in this report. A summary of the case types is as follows;

- Officer/Service - corruption and discrimination within service (x1)
- Officer - conflict of interest (x1)
- Officer/Service - breach of financial (or other) regulations (x4)
- Officer - theft (or misappropriation) of cash/asset/client funds (x1)
- Councillor – other behaviour (x1).

3.6 A further nine cases have been logged to date in Q2, which represents a slight increase

in internal-related activity over the same period last year.

#### 4. Tenancy and Social Housing Fraud

4.1 The recovery of social housing properties by the Investigations team has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk area for the Council. The average value of each recovered tenancy is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). The counter-fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

Housing Fraud	2019/20 Q4	2019/20 Q3	2019/20 Q2	2019/20 Q1	2018/19 (full year)	2017/18 (full year)	2016/17 (full year)
Open cases b/f				23	28	82	121
New Referrals				47	151	130	332
Closed cases				29	156	184	371
Open cases c/f				41	23	28	82
Fraud Identified				5	27	42	52
Recovered Properties				2	20	38	44
Applications Refused				1	3	1	0
Property Size Reduced				1	0	2	4
Right To Buy				1	3	1	4
Value of properties recovered*				£372,000	£2,139,000	£738,000	£864,000
Value of Right to Buy Discount Prevented**				£170,900	£315,800	£103,900	£311,700
Cases with Legal for Possession/Prosecution				8	12	11	26

\* Notional value of recovered properties (including housing and Right to Buy applications stopped, property size reduction and prevention of split tenancy) used for reporting purposes is £93,000. (£18,000 used previously)

\*\* Actual amount of Right to Buy discount stopped.

\*\*\* Fraud Found includes one housing case where Council Tax fraud/irregularity (£145.10) was identified.

4.2 A total of five housing cases, with a notional value of £542,900, were recorded as a result of fraud / irregularity in Q1, which is consistent with the same period last year where fraud was identified in seven cases.

4.3 There are currently 86 live housing related cases. Eight cases are currently going through various stages of legal proceedings to recover properties and/or prosecute housing related offences. Enquiries into an additional 18 cases have concluded and reports issued recommending recovery action is instigated.

4.4 The team have continued to provide fraud awareness training and assistance to key colleagues and introduced an enhanced verification for discretionary tenancies and

succession applications that commenced in Q4 (2018/19). The team have also started two proactive exercises relating to Right to Buy applications and tenancies in known risk areas for unlawful sub-letting, the results of which are anticipated after Q2. In addition, the team has commenced a tenancy fraud awareness campaign since April, which includes promotion using various media and communication with all council tenants via direct messaging and the quarterly tenancy newsletter.

- 4.5 Since last year, the team have re-engaged all Housing Associations that hold properties in the borough. This is with a view of generating quality referrals and improve closer working. Where the team investigate a Housing Association property that leads to a successful recovery, the council will receive nomination rights to that property. It is anticipated that referrals from Housing Associations will increase during this year.
- 4.6 A notable case is the recent recovery of a council property in April 2018, where the tenant had used fraudulent ID from the outset of the tenancy (January 2009) and was unlawfully subletting the tenancy whilst residing in their privately owned property under a different (presumed genuine) identity. This case was heard at court in September 2018 where the defendant pleaded guilty and gave an undertaking to pay the council £120,250 which has now been received. The defendant was sentenced on 29<sup>th</sup> July to 16 months' custody suspended for 24 months and ordered to pay costs of £2,400.
- 4.7 A further notable case concluded in Q1 is a refusal of a housing application. The applicant was found to have exaggerated their medical condition and supplied false information to the Housing Needs Service. It was decided not to pursue criminal proceedings due to some significant mitigating circumstances.

## 5. External Fraud

- 5.1 'External fraud' includes all external fraud / irregularity that affects the council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications. The counter fraud activity up to end of the year is summarised in the table below:

Table C – External Fraud

External Fraud	2019/20 Q4	2019/20 Q3	2019/20 Q2	2019/20 Q1	2018/19 (full year)	2017/18 (full year)	2016/17 (full year)
Open cases b/f				20	13	14	57
New Referrals				53	142	88	161
Closed Cases				29	135	89	204
Open cases c/f				44	20	13	14
Fraud / Irregularity *				2	23	12	22
Prosecution				1	2	1	2
Warning / Caution				1	4	2	6
Overpayment/Saving				2	19	11	7

**NB:** Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).

- 5.2 Since Q1 of 2017/18, the team has led on an organised Freedom Pass fraud investigation involving several councils in London with over 100 fraudulent applications identified to date. The team identified 17 fraudulent Brent applications. The main subject of the investigation was identified, arrested and appeared in court on 26 June 2018 relating to 21 counts of fraud, counterfeiting and forgery. The investigation was in collaboration with London Councils, Transport for London and the Police and is being led by Brent Council. The fraud has been present in our system since September 2016 and specifically targeted the 'partially sighted' entitlement category using false supporting documentation. This occurred due to inadequate controls on the verification of supporting documentation which was addressed by the service area at an early stage of the investigation. The potential value of a Freedom Pass is approximately £6,000 per year and the cost to councils is significantly more due to the charging structure with London Councils – it costs Brent approximately £350 per pass to administer.
- 5.3 The defendant had pleaded not guilty and following a six-day trial in March was found guilty by a unanimous jury verdict of nine counts of forgery at Harrow Crown Court – for the false documents they submitted to Brent, Enfield and Haringey Councils in support of applications for Disabled Person's Freedom Passes and a Disabled Person's Blue Badge. The team also prosecuted a further three charges on behalf of Waltham Forest Council. The defendant had pleaded guilty to these on the same day they were convicted but before sentencing was scheduled in April, they applied to vacate their plea. The judge dealt with the defendant's application in July 2019, which was subsequently denied. The defendant was recently sentenced on 2<sup>nd</sup> September as follows;
- For the Brent, Enfield and Haringey offences the defendant was sentenced to 18 months' imprisonment per offence for these 9 offences to be served concurrently and the sentence was suspended for 18 months.
  - For the Waltham Forest offences, the defendant was sentenced to 12 months' imprisonment for each of the three Waltham Forest offences. This is also to be served concurrently with the 18 months' sentence and was also suspended.
  - He was also sentenced to participate in 20 hours of a rehabilitation activity requirement order.
- 5.4 A notable case was a prosecution in April resulting from a previous Blue Badge enforcement operation in September 2018 where officers seized a counterfeit badge. The defendant pleaded guilty and was fined £1,250. They were also ordered to pay costs of £750 and a Victim Surcharge of £75.
- 5.5 During the last year, the team has logged 41 referrals relating to Blue Badge fraud from a variety of sources and with four directly from the Parking team. At the end of Q4 an agreed process between the Investigations team and Parking was implemented to generate increased quality referrals from Civil Enforcement Officers. In Q1 (2019/20), 29 referrals were received as result of the new process and a further 19 since July. There are currently a further 13 cases where either a formal caution has been offered or criminal proceedings instigated.

## **6. Proactive Counter Fraud activity**

- 6.1 In Q1, a **Blue Badge** enforcement operation on Ealing Road. This has resulted in 62 badges being checked, one badge seized for misuse and six Penalty Charge Notices issued. These operations are led by the team, planned confidentially and incorporate multiple council teams and the Police. Another operation is planned during September and an update will be provided in the next progress report.
- 6.2 The new data submissions for the **National Fraud Initiative (NFI) 2018/19** exercise was supplied in October and data matches were generated from Q4. These matches total 19,296 covering multiple data reports across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. These are currently being reviewed by the team and other services. One report that was recently completed relates to deceased person records against live Blue Badges, which has resulted in 277 (of 348) badges being cancelled with a notional value of £159,275.
- 6.3 A new **Council Tax** proactive exercise commenced in Q4 (2018/19) as a result data matching from the new NFI exercise. This involves data matching between Council Tax accounts and current Electoral Roll records. The new exercise will continue throughout this year. There are a total of 6,258 data matches of which 929 have been fully reviewed and 274 cases (29.5%) have been passed to the Council Tax team to remove the discount and confirm saving figures. It is planned to complete the review of the remaining matches by the end of Q2. An update on the current exercise will be set out in the next progress report.
- 6.4 **Government Counter Fraud Profession – Membership and Apprenticeship Programme.** Brent has been part of a multi-agency group across central and local government to develop a competency based counter fraud apprenticeship which has now progressed to the final stages with approval. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard. A LA working group, in conjunction with the Cabinet Office, has recently been set up (of which Brent is represented) to agree learning and development standards and an approach for LAs to become full GCFP members.
- 6.5 The team is trialling a pilot with **Cifas** (Credit Industry Fraud Avoidance System) as part of its commitment to anti-fraud. The pilot commenced in April 2019 for twelve and Brent will be one of 10 local authority fraud teams to take part. It will enable the team to have access to the Cifas National Fraud Database (NFD), which is used by the banking and insurance industry, to share appropriate investigation data and using data matching for the prevention and detection of crime. An additional pilot is being considered by Brent to become members of the Cifas' Internal Fraud Database (IFD), which is an anti-fraud membership to prevent and detect internal employee and recruitment fraud.
- 6.6 The team is currently using the Cifas NFD system to cross check all insurance claims (129) against the council received since April. Should this pilot prove successful, the aim will be to provide access to the Insurance team so they can use this system as part of their verification process. Access to the system has recently been given to the No Recourse to Public Funds team to assist their verification process.

#### **DWP joint working pilot**

- 6.7 The Investigations team is trialling a pilot exercise with the DWP, which commenced on 28th January 2019, that will enable joint investigations on suitable cases involving

Housing Benefit and Council Tax Support.

**GBG IDScan – Scannet (identity document authentication system)**

6.8 The team is aiming to introduce an identity authentication system that will enable all council services to have full assurance when accepting and verifying identity documents, which will help to prevent fraud. The preferred system is called IDScan – Scannet and it is widely used by other councils and public sector organisations. A trial of the system is being organised for later this month and will be predominantly used by Customer Services and Recruitment. The system is designed to be used at customer facing points, though the company does also provide a mobile service where customers can upload and have their identity documents verified remotely before submission.

**Fraud Awareness Strategy 2019/20**

6.9 We reviewed and updated our strategy, which was presented to committee in March 2019. Engagement across the council is ongoing, which includes liaison with all service areas, using social media to report key messages and fraud awareness sessions. Some specific areas to note since Q1 are as follows;

- Fraud awareness workshops conducted with; No Resource to Public Funds and Intentionally Homeless Service, Registration and Nationality Service, and Catalyst Housing Association. Specific workshops are being planned with Finance and Benefits.
- Tenancy Fraud awareness campaign that includes a media strategy and anti-fraud messages on all housing letters and application forms (includes Housing Needs Service and Housing Management).
- A specific fraud awareness workshop was conducted in August with the No Resource to Public Funds and Intentionally Homeless Service. The aim was to discuss fraud risk areas, verification and to generate referrals. As a result of this workshop, the Investigations team will undertake a review of the existing caseload and have introduced access to anti-fraud systems to improve verification.

**7. Financial Implications**

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

**8. Legal Implications**

8.1 There are no specific legal implications associated with noting this report.

**9. Equality Implications**

9.1 None.

**10. Consultation with Ward Members and Stakeholders**

10.1 None

**11. Human Resources/Property Implications (if appropriate)**

11.1 None.

**Report sign off:**

**Debra Norman**

Director of Legal, HR, Audit and Investigations



 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b>  26 September 2019
	<b>Report from the Director of Legal, HR, Audit and Investigations</b>
<b>Corporate Risk Register</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1 - Corporate Risk Register (A)
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations 020 8937 6526, <a href="mailto:Michael.Bradley@brent.gov.uk">Michael.Bradley@brent.gov.uk</a>

## 1. Summary

- 1.1. This report provides an updated Corporate Risk Register.

## 2. Purpose of the Report

- 2.1 In accordance with the terms of reference for the Audit and Standards Advisory Committee, the report is prepared to *'enable the Committee to monitor the effective development and operation of risk management and corporate governance in the Council.'*
- 2.2 This report provides an update on the Council's Risk Management position and includes an updated Corporate Risk Register. Each of the departmental management teams has carried out a review and re-assessment of their risk

registers that were put together last year following a series of workshops with each of the teams.

### **3.0 Detail**

#### **3.1 Risk Management Strategy 2017/19**

3.2 A review of arrangements undertaken as part of last year's refresh exercise established that risk is well understood across all levels of management.

3.3 The Corporate Risk Register was developed following a series of workshops with departmental management teams. Based on recently revised departmental risk registers following the recent restructure, the Corporate Risk Register has been updated.

3.4 It is presented at Appendix A.

3.5 There are inherent risks which the Council faces which are owned and monitored at Departmental level. These have previously been identified as:

- Safeguarding (Children and Adults);
- Business Continuity;
- Information Governance;
- Legislative Compliance;
- Fraud and Corruption;
- Financial Stability, and
- Health and Safety.

These risks will be incorporated into the Corporate Risk Register when net or mitigated risk ratings are deemed to be of a level that exceed the appropriate tolerance. During the course of the workshops for last year's exercise none of these inherent high risks were rated as high risk' although some risks were identified which could potentially have an impact on financial stability.

3.6 The main changes to the risk register following this review are:

- Removal of the Council Tax Transition risk due to the completion of the project, and
- Addition of the Brexit Risk in view of the approaching potential 'no deal' scenario. A recent Internal Audit of Brexit preparations found that the Council's analysis of Brexit risks in the event of no deal was good and no gaps in coverage were identified. Therefore, although the likelihood is increasing, effective action has been taken to ensure the impact is being sufficiently mitigated.

#### **4.0 Financial Implications**

4.1 There are no specific financial implications arising from this report. Departments assess and manage risks within existing budgets.

#### **5.0 Legal Implications**

5.1 All Local Authorities are required to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 20015:

“A relevant authority must ensure that it has a sound system of internal control which:

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective, and

(c) includes effective arrangements for the management of risk.”

#### **6.0 Equality Implications**

6.1 None

#### **7.0 Proposed Consultation with Ward Members and Stakeholders**

7.1 None

**Report sign off:**

***Debra Norman***

**Director of Legal, HR, Audit and Investigations**

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# Corporate Risk Register

September 2019

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# Corporate Risk Register Heat Map September 2019-2020

Service  
Delivery/  
Operational

- A. Brexit
- B. Recruitment, Retention and Training
- C. Quality of Service compromised due to savings
- D. Digital Strategy
- E. Failure to deliver Housing Growth
- F. Lack of supply of affordable accommodation

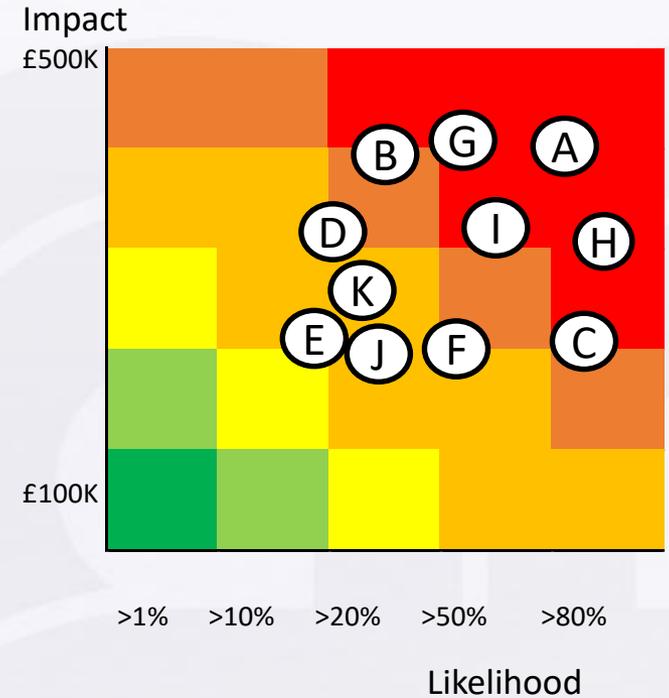
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Financial

- G. Budget Overspend
- H. Failure to Deliver Planned Savings
- I. Impact of Universal Credit

Stakeholder

- J. London Borough of Culture
- K. Contract Management



# Risk Register(1/8)

Cause, event, consequence

Risk and Trend (cause, event, consequence)	Recent developments, progress and concerns	Actions (names and dates)
<p><b>A. Brexit - Economic uncertainty/ loss of workforce</b></p> <p>There is a risk that <b>Brexit causes economic uncertainty and impacts on skills and workforce, reducing the Council's ability to develop the local economy and facilitate regeneration, resulting in lower income for the department and stalling regeneration.</b></p> <p>Page 117</p>	<p>No deal scenario planning. Potential impact on EU workforce, slowdown in housing market and economy. Loss of business base and income to council including planning and BC fees. Local businesses impacted by import and export issues.</p> <p>Opportunity for the Council to become more active in property and development, buying up buildings and sites from private sector.</p>	<p>Arrange the Partners for Brent Brexit - 17 Sep 19 Public EU settlement scheme information evening – 26 Sep 19 VCS Brexit workshop – 03 Sep 19 EU settlement scheme staff training sessions – 30 Sep 19 <b>Anne Kittappa and Mandy Brammer</b></p> <p>Register our LAC on the EU settlement scheme <b>Brian Grady and Mandy Brammer</b></p> <p>Work closely with our suppliers and local businesses to prepare for no deal Brexit – 31 Oct 19 <b>Matt Dibben, Chris Whyte, and Andrew Davies</b></p>

# Risk Register (2/8)

Cause, event, consequence

Risk and Trend <i>(cause, event, consequence)</i>	Recent developments, progress and concerns	Actions <i>(names and dates)</i>
<p><b>B. Recruitment, Retention and Training</b>            Failure to recruit and retain sufficient permanent staff to a significant number of posts, including senior managers, risks services being impaired and weakened.</p>	<p>Action has been taken to identify 'hard to fill' posts and put in place strategies to address recruitment shortcoming. E.g. Social Workers - Overseas recruitment. Housing – additional specialist recruitment resource.</p> <p>Ongoing work is taking place with external agencies to fill a range of Head of Service posts.</p> <p>The Council's Workforce Strategy addresses the general need to strive to make Brent an attractive employer across all professions.</p> <p>The Council has introduced a range of potential incentives including financial supplements that can be applied to 'hard to fill' posts</p>	<p>Nigel Chapman ongoing 18/19.</p> <p>Sean Gallagher 18/19.</p> <p>Raj Soni-Alagh 18/19.</p> <p>Executive October 2017 Implementation Director of Legal and HR ongoing. Director of Legal &amp; HR ongoing.</p>

# Risk Register (3/8)

Cause, event, consequence

Risk and Trend <i>(cause, event, consequence)</i>	Recent developments, progress and concerns	Actions <i>(names and dates)</i>
<p><b>C. Quality of Service</b>            There is a risk that the quality of service delivery is substantially compromised due to budget savings which would require a service delivery plan to mitigate and remodel the current service.</p>	<p>Alignment of the IAG Corporate and CYP contracts: 2019 - 2021, reduction of the budget would adversely affect delivery in year 2020/21.</p> <p>Reduction in service of IAG would negatively impact residents who are 'most in need' of access to a free advice and case assistance service. The majority of service users are from BME communities.</p> <p>The voluntary and community sector needs review is almost complete, the model may require revision to accommodate any savings to grants or infrastructure assistance.</p> <p>Savings to grants supporting community engagement, cohesion, projects and advice provision would negatively impact the services and projects arranged by and delivered to residents locally and via the hubs.</p> <p>Partnership and Engagement team delivery would need to reflect future service delivery requirements – promote and support income generation via SpaceHive, Brent4Communities, Brent Giving, funder networking.</p>	<p>No further actions planned.</p>

# Risk register (4/8)

Cause, event, consequence

Risk and Trend (cause, event, consequence)	Recent developments, progress and concerns	Actions (names and dates)
<p><b>D. Digital strategy</b>            There is a risk that due to poor planning and resource the Digital Strategy and Programme is not delivered to budget, and as a result does not meet business requirements and benefits are not realised.</p>	<p>The programme has a clear strategy and roadmap and a programme management team is in place with work overseen by the Digital Board which meets monthly. A recent audit of the Digital Programme returned a 'reasonable' rating.</p> <p>Recommendations related to enhancing benefits realisation and ensuring structures are in place for the potential roll out of robotics. In addition, all projects within Digital Transformation have been updated to include work stream reporting templates to capture benefits using the headings the auditors recommended.</p> <p>A programme level benefits realisation template against all Digital projects is presented at the corporate landlord board on monthly basis to ensure achievements and benefits are monitored.</p>	<p>Continue to embed audit recommendations</p> <p>Develop and gain agreement to case for funding to extend the programme</p> <p><b>Sadie East; Head of Transformation</b> March 2020</p>

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# Risk register (5/8)

Cause, event, consequence

Risk and Trend <i>(cause, event, consequence)</i>	Recent developments, progress and concerns	Actions <i>(names and dates)</i>
<p><b>E. Failure to deliver Housing Growth</b></p> <p>There is a risk that as a result of increased housing targets, demographic changes within the borough, and our reliance on third party delivery, we may fail to deliver housing growth to meet targets, and meet housing needs, leading to insufficient homes, reduced income (NHB, CT, CIL), reputational damage and possible government intervention.</p>	<p>The Local Plan allocations and policies are likely to fall slightly short of the anticipated targets (nearly 3,000 per annum) by around 1,700 over a 10 year period, despite two additional growth areas and denser developments being allowed. GLA may object to the plan at examination. Cabinet report for 14 October sets out options. Government intervention – degree depends on extent of missed targets. Action plan through to ‘presumption in favour of sustainable development’.</p> <p>Mainly reliant on third parties to deliver, and grant funding for affordable housing – macro economic factors come into play.</p>	<p>Cabinet report October</p>
<p><b>F. Lack of supply of affordable accommodation</b></p> <p>There is a risk that as a result of the limited supply of affordable accommodation and property market slow down, there will not be a sufficient supply to meet the demand from homeless households which would lead to greater reliance on temporary accommodation, which would be an additional burden on the general fund.</p>	<p>The Housing Needs Team is working with i4B and the Housing Partnerships Team to increase the supply of affordable accommodation for households on low income or dependent on benefit. The Council has also joined the pan London housing initiative – Capital Letters, to increase the supply of PRS accommodation that is made available for homeless households in Brent, as well as amending the Allocation Scheme to enable referrals to be made to private accommodation leased by a social landlord to end the main homelessness duty.</p>	<p>No further actions planned.</p>

# Risk Register(6/8)

Cause, event, consequence

Risk and Trend (cause, event, consequence)	Recent developments, progress and concerns	Actions (names and dates)
<p><b>G. Budget Overspend</b></p> <p>Demand for services could increase to levels higher than expected without warning, this would mean that services would be overspent resulting in other efficiencies having to be made or funding be found from elsewhere in the council.</p>	<p>There is a strong culture of budget management and the council as a whole has not overspent for 5 years. There is a structure and system in place to ensure that individual budget managers review their financial position, with results aggregated up to departmental and corporate level and reported quarterly to CMT and Cabinet. Reports identify emerging risks and trends as well as the corrective action being taken to address known or forecast overspends. In the current financial climate risks inevitably remain.</p>	<p>Regular quarterly reporting to CMT and Cabinet</p>
<p><b>H. Failure to Deliver Planned Savings</b></p> <p>Savings proposals could be subject to delays and unforeseen issues, this would mean that services would be overspent and that we would be unable to manage demand, resulting in other efficiencies having to be made or funding be found from elsewhere in the council.</p>	<ul style="list-style-type: none"> <li>• Brent has a good record of strong budget management, with the significant majority of savings being delivered.</li> <li>• The council monitors delivery of planned savings and has a track record of achievement of over 95% in year.</li> <li>• The systems described above also operate to mitigate this risk.</li> </ul>	<p>Include in CMT/PCG discussion on budget settings for 20/21 and future years, identify an action plan.</p>

# Risk register (7/8)

Cause, event, consequence

<b>Risk and Trend</b> <i>(cause, event, consequence)</i>	<b>Recent developments, progress and concerns</b>	<b>Actions</b> <i>(names and dates)</i>
<p><b>I. Impact of Universal credit</b></p> <p>There is a risk that as a result of the introduction of Universal Credit our rent income will be compromised which will create a deficit in our Housing Revenue Account.</p>	<p>Live roll out of Universal Credit commenced in the Borough and will only affect new claims and those who have any changes to their circumstances post the roll out. A corporate and local implementation plan is in place and is geared up to mitigate some of the key associated risks</p> <p>A new income collection case management functionality created in CRM. This is supplemented by a UC dashboard built of the Power Business Intelligence platform.</p>	<p>Review the UC improvement plan to take into consideration some of the emerging issues since the roll out of UC</p> <p>Head of Housing and Neighbourhoods – 31 October 2019</p>

# Risk register (8/8)

Cause, event, consequence

Risk and Trend <i>(cause, event, consequence)</i>	Recent developments, progress and concerns	Actions <i>(names and dates)</i>
<p><b>J. London Borough of Culture</b></p> <p>There is a risk that residents and wider population do not perceived the LB of Culture programme as delivering value for money, because it cannot demonstrate its impact, and as a result Brent Council suffers reputational damage.</p> <p>Page 124</p>	<p>Funding applications in train to reduce reliance on Council funding</p> <p>Community fund launched</p> <p>Community Advisors and Young Ambassadors appointed</p>	<p>Application to Paul Hamlin Foundation: Feb 19. LBoc team</p> <p>Promote community fund in order to secure applications from a wide range of groups and interests: Ongoing. LBoC team</p> <p>Appointment of curators and cultural partners to ensure high quality programming of cultural events: Ongoing LBoC team</p>
<p><b>K. Contract management</b></p> <p>There is a risk that due to operational, commercial, environmental or relationship issues, an important, high profile front line service may start to fail causing reputational problems for the council.</p>	<p>Contract management, audit and performance processes in place</p>	<p>Maintain a robust contract management framework and partnership strategy to identify issues early so that remedial actions are introduced to improve performance and mitigate reputational damage.</p>

 <p><b>Brent</b></p>	<p><b>Audit &amp; Standards Advisory Committee</b> 26<sup>th</sup> September 2019</p> <hr/> <p><b>Report from the Director of Finance</b></p>
<p><b>2019/20 MID-YEAR TREASURY REPORT</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-key
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	1. Treasury Management Indicators
<b>Background Papers:</b>	Treasury Management Strategy – Report to Full Council as part of the Budget Report – February 2019.
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	Daniel Omisore, Head of Finance 020 8937 3057, <a href="mailto:Daniel.omisore@brent.gov.uk">Daniel.omisore@brent.gov.uk</a>

## 1.0 Purpose of the Report

1.1 This report updates Members on treasury activity for the first half of the financial year 2019-20.

## 2.0 Recommendation(s)

2.1 The Committee is asked to note the 2019/20 mid-year Treasury report.

## 3.0 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 update 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 GDP growth in the first calendar quarter for 2019 increased from 0.2% in Q4 2018 to 0.5%. Stockpiling ahead of the uncertain Brexit date has been the main driver of this increase however this has not been maintained. Economic growth stalled in Q2 with a growth rate of -0.2%. The trade war between the US and China has also contributed to sluggish global growth. The outlook for the UK economy remains challenging to predict following the extension of the Brexit deadline.
- 3.6 Consumer Price Index (CPI) has increased to 2.1% in July and is expected to decline further below the MPC's 2% target in the near term, largely due to lower than expected retail prices. The unemployment rate remains at a low of 3.9% with the employment rate at 76.1%, the joint highest since comparable records began in 1971. Wages excluding bonuses grew by 3.9% which when adjusted for inflation shows real wages were up 1.9%
- 3.7 Gilt yields have displayed significant volatility on the back of ongoing economic and political uncertainty in the UK and Europe. The economic outlook will continue to depend significantly on the nature and timing of the EU withdrawal. 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 %**

<b>Period</b>	<b>Mar-18</b>	<b>Sep-18</b>	<b>Mar-19</b>	<b>Aug-19</b>
<b>1 year</b>	1.67	1.75	1.68	1.44
<b>5 year</b>	2.09	2.18	1.77	1.28
<b>10 year</b>	2.46	2.57	2.09	1.44
<b>20 year</b>	2.75	2.91	2.56	1.96

- 3.8 The interest rate the Council receives on money market funds has remained stable and outperformed local authority deposits over the three-month period (to the end of Aug 19) whilst providing added liquidity benefits.

## 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 2019.
- 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, the Council is in a position to consider alternatives, and has already begun this process with the implementation of the borrowing strategy work which will be reported back to this Committee at the end of the year. As can be seen in the table below no new long term loans have needed to be raised so far this year:

	Balance on 01/04/2019 £m	Debt repaid* £m	New Borrowing £m	Balance on 31/08/2018 £m
Short Term Borrowing	0	10	10	0
Long Term Borrowing	396	2	0	394
<b>TOTAL BORROWING</b>	<b>396</b>	<b>12</b>	<b>10</b>	<b>394</b>
Ave Rate of Long Term Borrowing %	4.78	2.60	0.8	4.79*

\* £25m 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 average interest rate of 2.58% compared with the rest of the debt, which is 4.97%.

- 3.11 In recent years 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 reduces the potential interest costs. However, the Council's internal resources will be reduced during this financial year so further capital expenditure may have to be financed from new borrowing. Affordability remains an important influence on the Council's borrowing strategy. Borrowing options, including the potential to agree forward funding and the timing of such borrowing has been assessed and the Council is working with external treasury advisors to review whether the debt capital markets can provide a more cost effective source of finance to the Public Works Loan Board.
- 3.12 The persistence of low interest rates (see para 3.7) means that it would be uneconomic to reschedule PWLB 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 £0.777m, a 25% 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

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

	Balance on 01/04/2019	Investments Made	Investments Repaid	Balance on 31/08/2019
	£m	£m	£m	£m
Short Term Investments	103	292	310	85

- 3.14 There was a £18m downward movement in short-term investments which is expected to continue in the coming years as the capital programme is progressed. The investment balances are expected to drop significantly over the next 6 months with the impending purchase of the 235 Gloucester & Durham units in South Kilburn. The year to date capital spend for 19-20 currently stands at £30.1m with a forecast of £297m for the full year. This is having a significant impact on our cash available for investment and as noted in para 3.11 the use of internal balances to fund capital expenditure may not be sustainable over the medium to long term.
- 3.15 The Council has undertaken a detailed analysis of its cash flows, examining the pace at which we are reducing our cash reserves. The analysis was based on forecast capital commitments, incoming resources and seasonal variations. The latest analysis suggests the council will need to borrow towards the end of 2021, to a certain extent 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, forward borrowing and other market loans. At a meeting in September 2018, Cabinet endorsed an updated borrowing strategy that included a recommendation to commence negotiations to agree a forward funding loan of up to £40m. As noted in 3.11, the Council is currently undertaking an exercise with external Treasury Advisors to review whether forward borrowing is the most appropriate form of funding for our expected capital expenditure and existing debt portfolio.
- 3.16 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20. In accordance with the policy, new investments can be made with the following classes of institutions:
- A- or above rated banks;
  - AAA rated Money Market Funds;
  - Other Local Authorities;
  - Housing Associations;
  - UK Debt Management Office;
  - Corporate Bonds
  - Collective Investment Schemes (Pooled Funds)

- Real Estate Investment Trusts

A short summary of the investment products available to the council along with an indication of relative risk is provided below:

- 3.17 The table below shows the different assets classes available to the council for its investment portfolio together with the major driver of the return and a summary of the key risks for each asset class.

<b>Asset Classes (approx. return)</b>	<b>Cash (0.7%)</b>	<b>Bonds (2.5%)</b>	<b>Equities (4.1%)</b>	<b>Property (4.8%)</b>
<b>Income driven by</b>	Short term interest rates	Medium term interest rates	Dividends / share prices	Rental income / vacancies
<b>Key Risk(s)</b>	Bank defaults	Company defaults	Company performance and perception of future performance	Property prices, least liquid asset class

- 3.18 The Council is presently situated towards the left side of the table as the treasury investment portfolio is predominantly held in the short term cash asset class, typically with other Councils.
- 3.19 An option available to the Council would be to increase the duration of fixed cash deposits in order to obtain a higher rate. Currently, it would be possible to earn between 1.65% - 2% on a 2-year deposit with a Housing Association.
- 3.20 The Council could obtain similar rates through fixed deposits with Banks and Building Societies however the Council's treasury advisors do not recommend depositing with any UK banks or building societies for more than 6 months on an unsecured basis.
- 3.21 Detailed consideration of the other asset classes would need to be undertaken by the Council prior to investment in conjunction with its treasury advisors. However, it is fair to say that that Equities and Property classes tend to be considered over a longer time frame, which may not be suitable for the Council given its significant capital spending plans.

### **Risks**

- 3.22 Regardless of the approach taken, the Council will be required to manage significant risks in relation to its treasury investment portfolio. Some key risks are: -
- Liquidity risk - that is the council having funds tied up in long-term investments when it needs to use that money. Increasing the duration of fixed cash deposits increases liquidity risk, however this can be mitigated through good cash flow management.

Mitigation – see Prudential Indicator 2 – Appendix 1

- Credit risk - the risk that a bank or other institution will not be able to pay back the money invested with it. For longer term investments, the council is more exposed to credit risk. Should a counterparty's credit worthiness change, the council may not be able to get all their money back or may face heavy penalties if it can do so.

Mitigation – see Prudential Indicator 1 – Appendix 1

- Interest rate risk – the risk of the council's budget being affected by unforeseen changes in interest rates. Longer term cash deposits increase this risk and will negatively affect the council should interest rates rise. On the other hand, the council may benefit should interest rates fall.

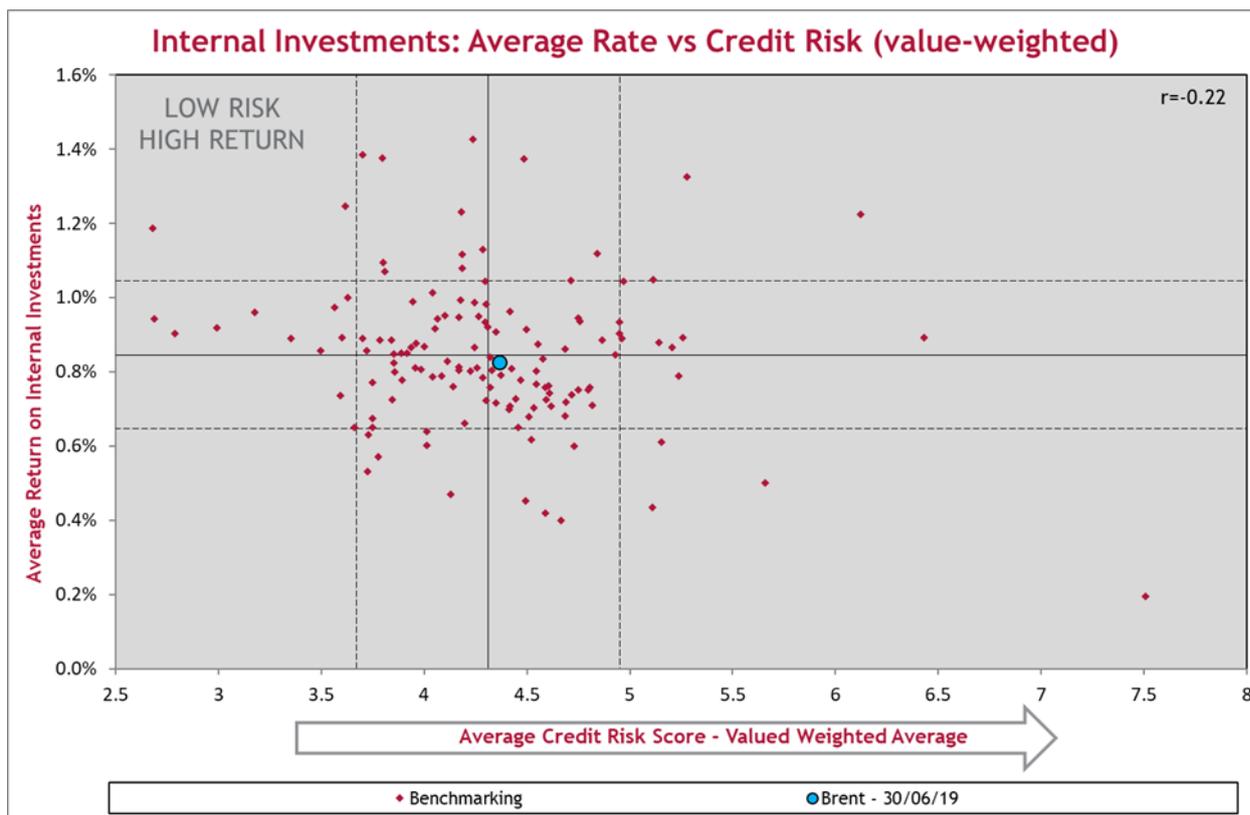
Mitigation – see prudential Indicator 3 – Appendix 1

### **Internal Processes**

- 3.23 The Council completes a thorough due diligence exercise when undertaking any new investment. An assessment of a wide range of credit factors for a counterparty are reviewed in conjunction with our treasury advisors. Ratings are obtained from the three major rating agencies. Ratio analysis provides an insight into the counterparty's liquidity, gearing and profitability. Based on their credit worthiness, an appropriate investment size and duration is determined that is permitted within the Treasury Management Strategy.
- 3.24 For local authority counterparties, an assessment is undertaken to evaluate the level of useable cash reserves and short and long term borrowing. Each authority's capital programme is reviewed to establish the authority's long term plans and understand the key drivers of their capital financing requirement, whilst highlighting any risks, such as significant and persistent overspends, extensive use of reserves to balance budgets for e.g.

### **Benchmarking to other councils**

- 3.25 The graph below shows a comparison between Brent's investment portfolio and that of Arlingclose's (the council's treasury advisor) other Local Authority clients. Brent's portfolio has a very low risk profile compared with many of the others, which also equates to a lower yield. However, many authorities are to the right of Brent, obtaining similar yields for much higher risk.



### Budgeted Income And Outturn

3.26 The Council's external interest budget for the year is £24.2m, and for investment income is £4.7m. The Council is likely to exceed this figure in 19-20 due to the enhanced income returns from subsidiary loans such as i4B. The average cash balances, representing the Council's reserves and working balances, were £94m during the period to 31 August 2019.

3.27 The UK Bank Rate remains at 0.75% since 02 August 2018. The short-term money market rates have experienced little fluctuation since the increase so have provided a stable return over the last year.

### Icelandic Bank Investment Update

3.28 £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 ongoing litigation.

### LOBOs (Lender Option Borrower Options) - Update

3.29 The Council has a market loan portfolio comprising a total value of £85.5m. Of this, £70.5m are LOBOs with the remaining £15m made up of fixed rate loans. The majority of the loans were taken out before 2010 meaning that in the current low interest rate environment the likelihood of these loans being "called" by the bank, in terms of changing the rate, is low.

## **Compliance**

3.30 Officers confirm that they have complied with its Treasury Management Indicators for 2019/20, which were set in February 2019 as part of the Council's Treasury Management Strategy Statement (TMSS). Details can be found in Appendix 1.

### **Summary**

3.31 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 2019/20. 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.

3.32 At the end of the year the outcome of the councils borrowing strategy work undertaken in conjunction with EY will be reported back to the committee for review and comment.

### **4.0 Financial Implications**

4.1 These are covered throughout the report.

### **5.0 Legal Implications**

5.1 There are no direct legal implications.

### **6.0 Equality Implications**

6.1 No direct implications.

### **7.0 Consultation with Ward Members and Stakeholders**

7.1 None.

### **8.0 Human Resources/Property Implications (if appropriate)**

8.1 No direct implications.

**Report sign off:**

***Minesh Patel***  
Director of Finance

### Item 13, Appendix 1 | Treasury Management Indicators

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

1. Credit risk indicator	Target	Actual
Portfolio average credit rating	A	A+

**Liquidity :** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling [three] month period, without additional borrowing.

2. Liquidity risk Indicator	Target	Actual
Total cash available within 3 months	£50m	£85m

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

3. Interest rate risk indicator	Limit	Achieved
Upper limit on one-year revenue impact of a 1% rise in interest rates	£5m	£0.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5m	£0.5m

*The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.*

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

<b>4. Refinancing rate risk indicator</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual Fixed Rate Borrowing as at 31/08/19</b>	<b>% Fixed Rate Borrowing as at 31/08/18</b>	<b>Compliance with Set Limits?</b>
Under 12 months	40%	0%	31	8%	Yes
12 months and within 24 months	40%	0%	23	6%	Yes
24 months and within 5 years	40%	0%	37	9%	Yes
5 years and within 10 years	60%	0%	5	1%	Yes
10 years and within 20 years	75%	0%	23	6%	Yes
20 years and within 30 years	75%	0%	52	13%	Yes
30 years and within 40 years	75%	0%	213	54%	Yes
Over 40 years	75%	0%	11	3%	Yes

*Time periods start on the first day of each financial year. LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.*

**Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

The limits on the long-term principal sum invested to final maturities beyond the period end will be:

<b>5. Principal sums invested for periods longer than a year:</b>	<b>Principal invested beyond 19/20 year end</b>	<b>Principal invested beyond 20/21 year end</b>	<b>Principal invested beyond 21/22 year end</b>
Limit	£50m	£50m	£50m
Actual sums invested for longer than a year	£0m	£0m	£0m

# The Annual Audit Letter for London Borough of Brent

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Year ended 31 March 2019

19 August 2019



Agenda Item 14

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Reports issued and fees	
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### Your key Grant Thornton team members are:



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at London Borough of Brent (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report on 10 July 2019.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act).

Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two);
- assess the Council's arrangements for securing economy, efficiency; and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

## Our Work

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### Materiality

We determined materiality for the audit of the Council's financial statements to be £20,000,000, which is approximately 1.85% of the Council's gross revenue expenditure.

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### Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 18 July 2019.

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### Whole of Government Accounts (WGA)

At the date of issuing our Annual Audit Letter, our work on the Council's Whole of Government Accounts Return is ongoing, however it will be completed by the mid-September deadline.

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### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £20,000,000, which is approximately 1.85% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit.

We set a lower threshold of £1,000,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

## The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We have undertaken additional testing on Property Plant and Equipment, and Pensions Liability which is detailed on pages 7 and 8.

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals;</li><li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li><li>• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>No issues were identified from the work performed in this area.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalue land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value (or fair value for surplus and investment assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the appropriate values as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li><li>• evaluated the competence, capabilities and objectivity of the valuation expert;</li><li>• written to the valuer to confirm the basis on which the valuations were carried out;</li><li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li><li>• used our own auditor's expert Gerald Eve to support challenge of management judgements on key movements;</li><li>• tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; and</li><li>• evaluated the assumptions made by management for any assets not revalued at 31 March 2019, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.</li></ul>	<p>We did not identify any significant matters as a result of our audit.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Pension Fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li> <li>• confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.</li> </ul>	<p>Our audit work identified that the Council used the provisional figure for its pension fund net liability of £829.3m, issued by its actuary in January 2019, in compiling the draft statement of accounts (Note 8 Long term liabilities). The actuary's final report issued in May 2019 has a revised pension fund net liability of £918.7m. We understand the Council used provisional figures for the pension fund net liability in drafting its statement of accounts for early closedown. Where the year end actual figure is materially different to the provisional figure used we ask the Council to revise its position.</p> <p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. This issue is also relevant to other public sector schemes such as as the Local Government Pension Scheme.</p> <p>The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. As a consequence of the ruling, which occurred during the audit period in June, the Council were requested to review their accounting treatment for McCloud. It was at this point the Council commissioned their actuary to provide an estimate of the impact on the Council's IAS19 estimate. The estimate provided by the actuary was a potential increase in the pension liability of £7m which the Council amended in their accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b></p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>gained an understanding of the Fund's management processes for valuing Level 3 investments and evaluated the design of the associated controls;</li><li>reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; and</li><li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period..</li></ul>	<p>No issues were identified from the work performed in this area.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 July 2019.

## Preparation of the financial statements

The Council's prepared its draft financial statements by 24 May 2019, almost a week earlier than the previous year. We worked closely with the finance team to ensure this first year audit went as smoothly as possible. With a good standard of working papers provided by the finance team and hard work on both sides we were able to achieve an early sign off date, 13 days before the statutory deadline.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Standards Committee on 10 July 2019. The key adjustments were reported within the Audit Findings Report presented to this Committee.

## Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of the London Borough of Brent Pension Fund on 18 July 2019 as well. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Standards Committee on 10 July 2019.

## Whole of Government Accounts (WGA)

At the date of issuing our Annual Audit Letter our work in this area is still outstanding, however this will be completed by the statutory deadline, which is in mid-September.

## Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of London Borough of Brent until we complete our work on the WGA Return, as mentioned above.



# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

### Risks identified in our audit plan    How we responded to the risk    Findings and conclusions

#### The risk as identified in our 2018/19 Audit Plan

The Authority has historically performed well at managing its financial position although reductions in funding and increasing demand for services has made this increasingly challenging.

The Authority is planning to make £40m savings over the next four years to balance the budget and is currently consulting on savings and income generation proposals to identify £20m of net expenditure reduction for the next two years.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2018/19.

#### Financial Sustainability

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The level and stability of the Council's usable reserves.

#### 2018/19 outturn

The Council had a challenging year but was able to achieve a £2m underspend against the main General Fund revenue budget. This is an improvement on the position forecasted in previous periods and the position in previous years.

The use of CYP earmarked reserves illustrates that the Council does have ongoing financial pressures which need to be addressed. However, this needs to be put in the context of income growth opportunities in relation to an increasing council tax and business rates bases, and the strong position of the Council's reserves. Brent has over £368m of usable reserves which can ultimately be deployed to address in-year shortfall. To put this in further context, Brent Council could receive no RSG, council tax or business rates in 2019/20 and still balance the books using reserves. This is a much stronger position than virtually all other London boroughs. It is also worth noting that the Council is very clear about actively finding solutions in CYP.

#### 2019/20 Budget and beyond

The Council's MTFs assumes a £40m net expenditure reduction over next 4 years to balance the budget. If the £40m reduction is underestimated the Council may have to resort to 'core services' offer. Savings proposals of £26.2m were identified to be consulted with councilors and local residents, with £20m of savings required to balance budgets for 2019/20 and 2020/21. The budget for 2019/20 is based on the 2018/19 outturn. All savings have been separately identified and reported to ensure robustness of the 2019/20 budget. Over the decade to 2019/20 core funding will have fallen by 63% in real terms, LG revenue spending power will have fallen by 23%. At the same time, in London, population has risen by over 15%, more than double the rate elsewhere in England. Brent has a history of managing its finances well, delivering savings of £164m since 2010.

Overall the Council expects to overspend against the main 2019/20 General Fund budget by £0.2m..

The medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and of course now the Conservative Party leadership contest. Local Government funding is due to go undergo a significant shake up due to the impact of the business rate retention plan and the Fairer Funding Review.

The Brent response will continue to be focused on:

- Increasing council tax base growth and maximising referendum limits;
- Delivering savings and reshaping Children's services; and
- Increased focus on capital regeneration and associated income growth from business rates, fees and charges, etc.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

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Fees1

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	153,684	160,084	199,590
Audit of Pension Fund	16,170	16,170	21,000
Housing Benefit Grant Certification	20,000	TBC	22,410
<b>Total fees</b>	<b>189,854</b>	<b>TBC</b>	<b>243,000</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £153,684 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Also given we are yet to commence our work on the Certification of the Council's Housing Benefit Return, we are currently unable to confirm whether any additional fees will be charged in respect of this work.

## Additional Fees proposed

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling – Main Accounts</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£2.4k
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1.6k
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£2.4k
<b>Total</b>		<b>£6.4k</b>

# A. Reports issued and fees (continued)

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee	Final fee
<b>Council Audit</b>	£153,684	£160,084
<b>Total audit fees (excluding VAT)</b>	<b>£153,684</b>	<b>£160,084</b>

## Additional Fees

Fees for other services	Proposed fee
<b>Audit related services</b>	
<b>Grants:</b>	
• Housing Benefit Subsidy return	£20,000
• Teachers' Pensions return	£3,000
• Pooling of Housing Capital Receipts return	£2,000
<b>Audit of subsidiaries:</b>	
• i4B Holdings Ltd audit	£27,000
• FWH Ltd audit	£25,000
	<b>£77,000</b>

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services listed are consistent with the Council's policy on the allotment of non-audit work to your auditor.

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach



## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Municipal Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management
- At a wider level, the political environment remains complex:
- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2019/20 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

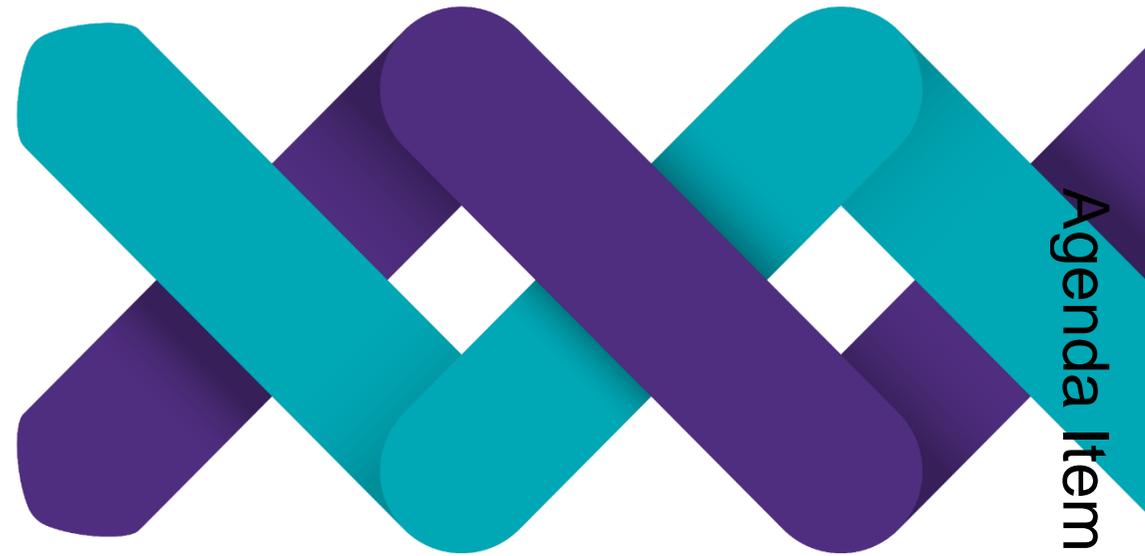




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# Audit Progress Report and Sector Update

**Brent Council**  
Year ending 31 March 2020  
Page 15  
26 September 2019



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# Introduction



**Paul Dossett**

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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Paul or Sophia.

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**Sophia Brown**

**Engagement Manager**

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## PSAA Contract Monitoring

Brent Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Progress at September 2019

## Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 18 July 2019. We have completed our work on your Whole of Government Accounts (WGA) submission, submitted 12 September 2019 in advance of the national deadline. We have also completed our work on the Pension Fund 2018/19 Annual Report. We certified the closure of the 2018/19 audit on 13 September 2019.

We will begin our planning for the 2019/20 audit in October and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will begin our interim audit in January 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment;
- Updated understanding of financial systems;
- Review of Internal Audit reports on core financial systems;
- Early work on emerging accounting issues;
- Controls testing; and
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 is in progress and will be completed by the 30 November deadline. We will report our findings to the Audit Committee in our Certification Letter in January 2020.

We certify the Council's pooling of housing capital receipts return and the teachers' pension return. We will soon commence our work in these areas for completion in line with national deadlines.

### Meetings

We met with Finance Officers in September as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We will meet with your Chief Executive in October to discuss the Council's strategic priorities and plans.

### Events

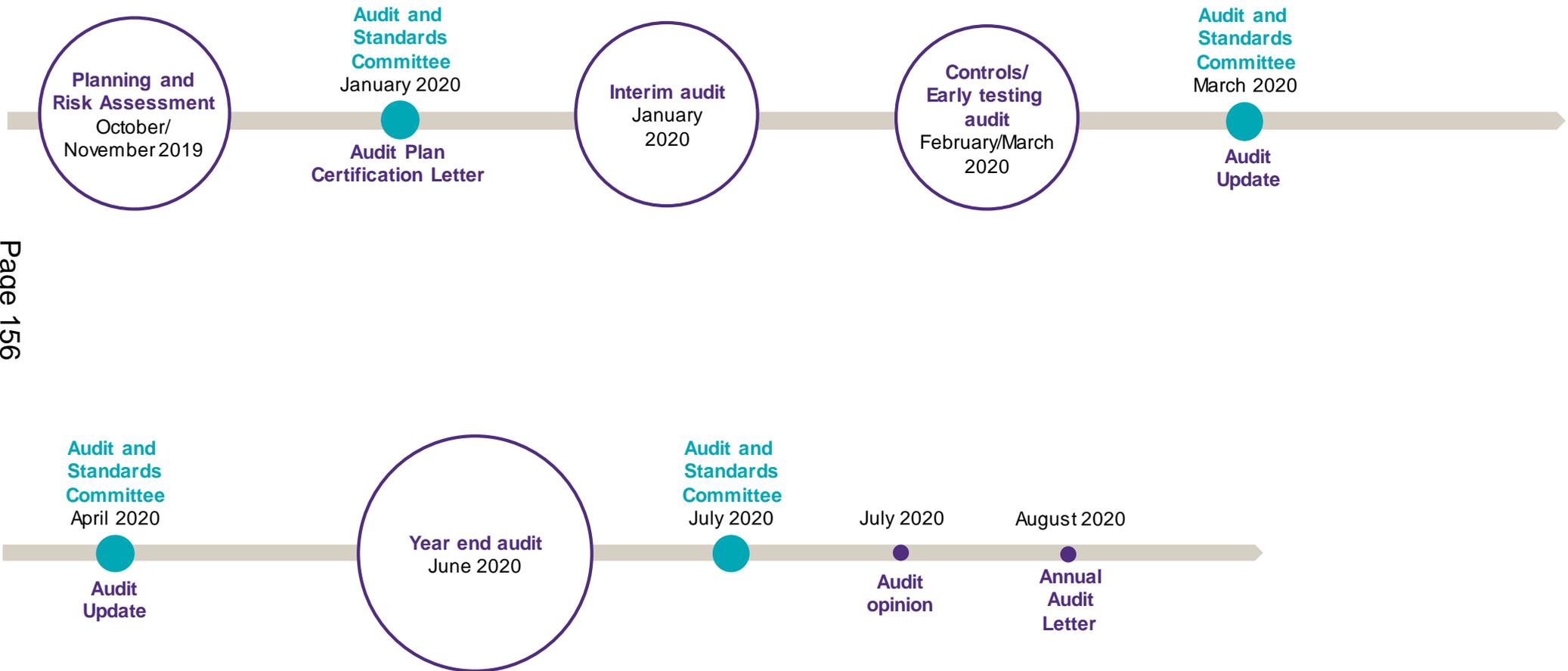
We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our sector update section of this report.

# Audit deliverables

2018/19 Deliverables	Planned Date	Status
<b>Audit Findings Report</b> The Audit Findings Report was reported to the July Audit and Standards Committee.	July 2019	Complete
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2019	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	January 2020	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit and Standards Committee.	July 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2020	Not yet due

# Planned 2019/20 audit timeline



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# Sector update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 107  
Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below :

Public Sector

Local  
government

# CIPFA – CFO confidence survey

## In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.

On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



# Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose



## Profit with a purpose

Delivering social value through commercial activity

# MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

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He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.



The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We'll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

Brexit preparations



# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

**Stage 1** involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

**This stage of the consultation is now closed.** The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

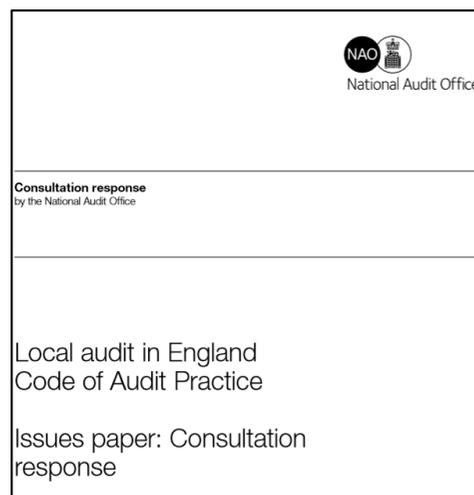
**Stage 2** of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



# Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

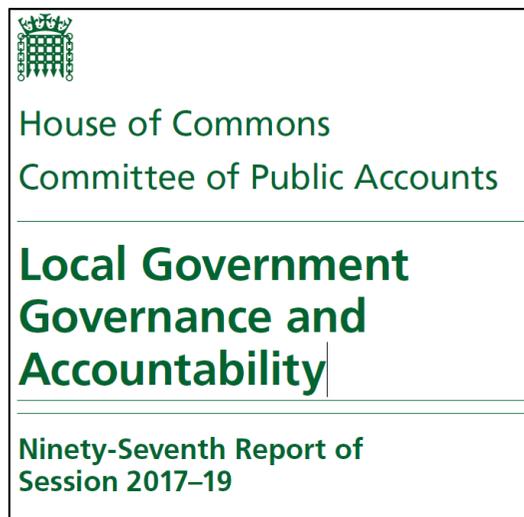
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>





 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b>  <b>26 September 2019</b></p> <p><b>Report from the Director of Legal, HR, Audit and Investigations</b></p>
<p><b>Update on Audit and Standards Advisory Committee's self-assessment exercise</b></p>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	NIL
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations 020 8937 6526, <a href="mailto:Michael.Bradley@brent.gov.uk">Michael.Bradley@brent.gov.uk</a>

## 1. Summary

- 1.1. This report provides a short update on progress against the agreed actions resulting from the Committee's self-assessment exercise in March 2019.

## 2. Recommendations

- 2.1. The Audit Committee note the content of the report.

## 3. Background

- 3.1. Members of the Audit and standards Advisory Committee engaged in a self-assessment workshop after their scheduled meeting on 24<sup>th</sup> April 2019.
- 3.2. The session was framed around the key elements of CIPFA's guidance on the effective working of an Audit Committee. These elements were:
  - *'Audit' and 'Standards' Committees working together;*

- *Promoting the principles of good governance and their application to decision making;*
- *Supporting the establishment of arrangements for managing risk, including reporting and obtaining assurance;*
- *Supporting internal audit activity: planning, reporting and recommendation follow up, and*
- *Aiding the achievement of the organisation's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.*

3.3. The session was well attended and covered a range of issues. Actions were agreed in three main areas. They are listed below with a brief update on actions taken. A detailed report is planned for 20th January 20102:

- *Liaison with the Scrutiny function;*

Officers have assessed how the Committees' respective roles complement each other. Further work is being undertaken to explore how their work programmes can be synchronised.

- *Risk Management, and*

ASAC's consideration of the Corporate Risk framework will be reviewed after the most recent iteration of the corporate risk register is assessed by senior officers and Cabinet members and ASAC in September 2019.

- *ASAC constitution, conduct and skills.*

Officers will liaise with the Chair and Vice Chair of ASAC to consider the actions in this area. A meeting has already taken place to consider attendance at member development sessions

#### **4. Financial Implications**

The report is for noting and so there are no direct financial implications

#### **5. Legal Implications**

The report is for noting and so there are no direct legal implications

#### **6. Diversity Implications**

None

**7. Background Papers**

None

**8. Contact Officer Details**

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**A&SAC FORWARD PLAN / WORK PROGRAMME**

Topic / Date	20-Mar-19	24-Apr-19	Jul-19	Sep-19	Jan-20	Mar-20	Apr-20
<b>Internal Audit &amp; Investigations</b>							
Internal Audit Annual Report, including Annual Head of Audit Opinion			X				
Review Internal Audit Charter							
Internal Audit and Counter Fraud Progress Reports				X			
Draft Internal Audit and Investigations Annual Plan	X					X	
<b>External Audit</b>							
External Audit progress report		X	X	X	X	X	
External Audit plan					X		
External Audit - Certification of grants and returns	X				X	X	
Statement of Accounts & External Auditor's Report			X				
External Auditor Annual Audit Letter				X			
<b>Financial Reporting</b>							
Treasury Management Mid-term Report				X			
Treasury Management Strategy & Annual Investment Strategy						X	
Treasury Management Outturn Report			X				
<b>Governance</b>							
To review performance & management of i4B Holdings Ltd and First Wave Housing Ltd				X			
Review of the use of RIPA Powers	X						X
Receive and agree the Annual Governance Statement		X					X
<b>Risk Management</b>							
Strategic Risk Register Update	X			X		X	
Emergency Preparedness					X		
<b>Audit Committee Effectiveness</b>							
Review the Committee's Forward Plan	X		X	X	X	X	X
Review the performance of the Committee (self-assessment)		X	X				
Determine and Deliver Training Requirements for Audit Committee Members as required							
<b>Standards Matters</b>							
Quarterly update on gifts and hospitality	X		X		X		X
Annual Standards Report	X						X
To consider the Council's response to the report on local government ethical standards issued by the Committee on Standards in Public Life	X						
Review of the Member Development Programme and Members' Expenses	X					X	

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