



Brent

**MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE**  
**Wednesday 17 October 2018 at 6.00 pm**

**PRESENT:** Mr Ewart (Chair), Councillors A Choudry (Vice-Chair), Colwill and Nerva, and Independent Member Sheila Darr

**Also Present:** Councillor S Choudhary

**Absent:** Independent Member Margaret Bruce

Everyone introduced themselves as this was the first meeting attended by Paul Dossett (Partner, Grant Thornton - External Audit) and Sophia Brown (Senior Manager, Grant Thornton - External Audit).

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

Apologies for absence were received from Councillors Kansagra (with Councillor Colwill substituting), Lo and Mashari, and Independent Members Robert Cawley and Karen McArthur.

The Chair informed Members that he had received apologies for absence from Carolyn Downs (the Council's Chief Executive).

2. **Declarations of Interest**

There were no declarations of interest.

3. **Deputations (if any)**

There were no deputations.

4. **Minutes of the previous meeting**

It was **RESOLVED** that the minutes of the previous meeting of the Audit and Standards Advisory Committee, held on 26 July 2018, be approved as an accurate record.

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5. **Matters arising (if any)**

**External Audit Report on grants and returns 2016/2017**

*(Item 9 from the minutes of the meeting of the Audit Advisory Committee on 20 March 2018)*

It was noted that a written update on the implementation of the action plan created by the Housing Benefit Team to address the findings of the External Audit Report on grants and returns 2016/17 had been circulated to all Members.

**Report on i4B Holdings Ltd and First Wave Housing Ltd**

*(Item 8 of the minutes of the minutes of the previous meeting)*

The Chair informed Members that Eugene Sullivan (Former Independent Advisor the Committee) had sent his comments related to aligning the risks for i4B Holdings Ltd and the Council to Carolyn Downs (the Council's Chief Executive) and Conrad Hall (the Council's Chief Finance Officer) who would provide a response.

**Independent Advisor to the Committee**

The Chair informed Members that Mr Sullivan had resigned due to ill health. The Committee placed on record their appreciation of the support he had provided to the Committee throughout the years he had served as an Independent Member and an Independent Advisor.

Members discussed the value Independent Members added to the wide range of topics discussed by the Committee and were in unanimous agreement that the vacancy that had been created following Mr Sullivan's resignation must be filled. It was noted that there were four Independent Members who had joined the Committee following its merger with the former Standards Committee and who supported Elected Members by providing a different perspective and robust challenge to the matters considered by the Committee. Therefore, a preference for a person with commercial operational background who had a solid finance understanding was expressed. Furthermore, Members pointed out that it would be preferable for the Independent Adviser to live within commutable distance from the Council so informal discussions with Members and senior officers could take place as and when necessary.

Paul Dossett (Partner, Grant Thornton – External Audit) acknowledged that Independent Members added value to audit committees and noted that a financial management code for Chief Finance Officers which was drafted by the Chartered Institute of Public Finance and Accountancy (CIPFA) contained a section on the effectiveness of audit committees and emphasised the importance of self-assessment.

Althea Loderick (the Council's Strategic Director of Resources) added that the specification of the role could be shared with professional head hunter companies which specialised in recruiting non-executive members with specific qualifications as this would provide a good opportunity to source the right type of candidates.

Mr Hall noted the contents of the discussion and said that he would make the necessary arrangements to start the recruitment process, the structure of which would be agreed in consultation with the Chair and the Vice-Chair of the Committee.

**RESOLVED** that:

- (i) An Independent Advisor to the Committee would be recruited;
- (ii) The Chief Finance Officer, in consultation with the Chair and the Vice-Chair of the Committee, would design the recruitment process and would make the necessary arrangements to initiate it.

### **2017/18 Treasury Management Outturn Report**

*(Item 10 of the minutes of the minutes of the previous meeting)*

The Chair noted that a Mid-Year Treasury Report had been included under Agenda item 7 of the present meeting.

### **Counter Fraud Annual Report 2017/18**

*(Item 12 of the minutes of the minutes of the previous meeting)*

The Committee heard that the average value of each recovered property had been adjusted to reflect the actual value in the Borough.

### **Risk Management Framework Review**

*(Item 14 of the minutes of the minutes of the previous meeting)*

The Chair informed Members that senior managers had been supportive of the the Risk Management Strategy. It had been discussed at Departmental Team Meetings (DMTs) and it would be presented to the Council Management Team (CMT) in December 2018, following which a report would be provided to the Committee at the meeting on 5 February 2019.

*Councillor Aden was in attendance at the meeting between 6:03 pm and 6:10 pm.*

*Councillors S Choudhary and Colwill joined the meeting at 6:03pm and 6:08 pm respectively.*

## **6. Annual Audit Letter 2017/2018**

The Chair informed the Committee that Andy Sayers (Partner, KPMG – the Council's former external auditor) had written to him and read out the contents of the Mr Sayer's email. He reminded Members that it was requirement for the Committee to consider the Annual Audit Letter 2017/2018 which contained a summary of the ISA260 report discussed at the meeting on 26 July 2018. The Committee heard the accounts for the last three years had not been fully signed because of an objection related to the Lender Option Borrower Option (LOBO) loans (page 23 of the Agenda pack). The Chair noted that at the previous committee meeting Mr Sayers had said that he expected work on the objection to have reached the final stage by October 2018. However, where provisional views had been issued by other Local Authorities, queries had been raised in relation to the consideration of certain case law. Therefore, KPMG would be taking legal

advice as to whether the points that had been made had merit and should be reflected in KPMG's work on the objection.

Paul Dossett (Partner, Grant Thornton – External Audit) commented that there had been other local authorities with inverse floating LOBOs whose audits had not been certified closed.

The Committee noted that delivery of budgets and contact monitoring had been identified as areas of audit focus in relation to Value for Money.

**RESOLVED** that the contents of the Annual Audit Letter 2017/2018, be noted.

## 7. **2018/2019 Mid-Year Treasury Report**

Sawan Shah (Finance Analyst at Brent Council) introduced the report which provided an update on Treasury Management Activity in the first half of the 2018/19 financial year. Mr Shah spoke of the economic background in the United Kingdom (UK) and said that the economy had been recovering in the second quarter of the financial year following very low growth in the first quarter and had been growing at roughly the same pace as the economy of the European Union (EU), with growth in the United States of America (USA) had been stronger. Although the latest figures showed that inflation had dropped to 2.4% and wages had grown by around 3%, the impact of the UK leaving the EU continued to cause uncertainty.

The Committee heard that there was no new borrowing required over the course of the current financial year and the Council's long-term debt had been reduced slightly. Furthermore, Brent continued to qualify for borrowing at 'certainty rate' until 31 October 2018 and an application for the period November 2018 to October 2019 had been made (paragraph 3.9 on page 29 of the Agenda pack).

Mr Shah advised Members that the Council's Capital Programme continued to be funded by internal borrowing and that a report on cash flow borrowing had been considered by Cabinet. A significant amount of capital expenditure had been allocated to one of the Council's wholly owned investment companies – i4B Holdings Limited – and the New Accommodation for Independent Living (NAIL) scheme.

An Elected Member who was in attendance at the meeting enquired whether it could be possible to repay the Council's debt earlier than scheduled. Mr Shah explained that repaying the current long-term borrowing portfolio and then borrowing money at the current interest rates (which were lower) was possible. However, Daniel Omisore (Head of Finance at Brent Council) highlighted that the main disincentive to repay the Council's debt at the moment was the fact that the Local Authority would have to pay significant premiums which would not be financially viable. He referred Members to paragraph 3.13 of the report (page 30 of the Agenda pack) which contained an example of the cost the Council would have to cover had it decided to repay just one of its loans early. Brent would owe a 26% premium on the value of the loan before the cost of re-financing. The aims of this were to compensate the lender and to act as a penalty.

This led to a wider discussion on Brent's Borrowing Strategy which had been approved by Cabinet in September 2018. Conrad Hall (the Council's Chief Finance

Officer) pointed out that interest rates since 2010 had been under 1%. Historically this was abnormal. Although some commentators are of the view that it is the new normal. The view that the Council had taken was that interest rates in short and medium term were more likely to rise than not. Therefore, the report presented at the previous meeting of the Committee and considered by Cabinet recommended a forward borrowing option to be included as part of a wider borrowing strategy. The benefit of such an arrangement was that it allowed the Council to agree a fixed rate in advance that was broadly comparable with Public Works Loan Board (PWLB) rates. As interest payments did not commence until the loan started, the Council would be able to hedge against interest rate exposure. In response to a question that related to the policies of other local authorities, Mr Hall said that councils' approach to borrowing would depend on their individual circumstances related to their capital programmes and debt strategies. Moreover, even if it might be possible to obtain benchmarking information from Arlingclose (the Council's Treasury Management advisers), it would not be feasible to compare the figures without taking into account the financial position of each local authority.

Paul Dossett (Partner, Grant Thornton – External Audit) informed Members that a statement had been issued by the Ministry of Housing, Communities and Local Government setting out that capital expenditure on property by local government had increased significantly in the last couple of years. There had been diversification in the number of different types of funding available to support capital programmes which, on their turn, generated returns and contributed to councils meeting their social objectives. Mr Dossett added that the type of borrowing used by local authorities was linked to their strategies and their future goals.

A Member of the Committee referred to Appendix 1 to the report (page 33 of the Agenda pack) and asked officers to provide more information on the capital financing requirement (CFR) and the reason why the Council's level of Usable Reserves were forecasted to decline from £204 million to £60 million by 31 March 2021. Mr Omisore explained that the CFR measured the Council's underlying need to borrow and that the decline had been forecasted because reserves had been used to fund the capital programme explained. Members heard that the Local Authority had an ambitious programme which included funding i4B Holdings Ltd and investment in housing stock which would require it to borrow money in the next couple of years.

Mr Hall highlighted that Council had been accumulating funds as result of collecting Community Infrastructure Levy (CIL) which had not been spent. In his view, the CFR showed Brent's intention to grow its capital programme in attempt to deal with the substantial financial pressures it faced.

The Chair referred to paragraph 3.24 of the report (page 32 of the Agenda pack) and said that it was important to note that officers had complied with the Prudential Indicators for 2018/2019 which had been set in February 2018 as part of the Council's Treasury Measurement Statement. He also commented on the Internal Investments: Average Rate vs Credit Risk diagram included in Appendix 3 to the report (page 40 of the Agenda pack), pointing out that Brent's position was balanced in relation to return on internal investments and credit risk score.

**RESOLVED** that the contents of the 2018/2019 Mid-Year Treasury Report, be noted.

## 8. External Audit Progress Report

Sophia Brown (Senior Manager, Grant Thornton - External Audit) introduced the report which provided the Committee with an update on progress in delivering Grant Thornton's responsibilities as the Council's external auditors. Ms Brown noted that the paper also included a summary of emerging national issues and developments that might be relevant to Brent. She said that Grant Thornton had finished planning their work for the 2018/2019 financial year audit and directed the Committee's attention to the audit timeline included in the report (page 48 of the Agenda pack). Paul Dossett (Partner, Grant Thornton – External Audit) and Ms Brown had met with Conrad Hall (the Council's Chief Finance Officer) and his team and representatives of Grant Thornton would visit the Council in the beginning of November 2018 with the aim to understand key processes.

The Committee discussed the Brent Council – Reserves: Key Performance Indicators table included in the Council's Reserves and Balances section of the report (page 50 of the Agenda pack). Ms Brown highlighted that this part of the paper related to the discussion on the 2018/2019 Mid-Year Treasury Report (for details, please see minute item 7) and she said that the table reflected the Value for Money discussions Grant Thornton staff had with other London boroughs and, therefore, provided a good comparison on a number of indicators. In response to a Member's question, Ms Brown confirmed that the data included in the table had been calculated on crude basis and further analysis would be taken as part of Grant Thornton's work on Value for Money.

A Member who was in attendance at the meeting enquired why the Council did not spend its reserves. Mr Hall explained that the data provided represented point-in-time information. He reminded Members that although there had been delays associated with the capital programme, work had been taken place to consider ways of accelerating it and to ensure that expenditure could catch up with delivery. In his view, the Council had taken the right decision to save funds generated from the Community Infrastructure Levy (CIL) and spent it on transformation capital investment rather than on multiple small projects. Furthermore, Mr Hall emphasised that the fact that the Council was holding up to money was not concerning as the Council's reserves would normalise in a few years' time and, in fact, the Local Authority might need to borrow money to fund the capital programme.

Mr Dossett commented that having a planned programme that generated revenue was taking the Council closer to self-sufficiency which was in line with the Government's vision for local authorities. He added that following the crisis at Northamptonshire County Council, the Chartered Institute of Public Finance and Accountancy (CIPFA) had been challenged to outline the actions it had taken in response to the situation. In Mr Dossett's view, there had to be a balance between back-looking and forward-looking information and forecasting. A working group had been set up and a financial management code, which would come into force in 2020 and could be used for benchmarking, had been drafted to prescribe a set of behaviours to promote financial stability.

Referring to the size of Brent's reserves, Mr Hall pointed out that £12.3 million (compared to an average for London Boroughs of £19.6 million) was sufficient for an authority with Brent's size and risks. He stressed that for the last five years the

Council had not overspent on the overall budget which was favourable, taking into account the fact that there were authorities in London that had overspent by several million pounds. However, as small changes in demand or unit costs could put significant pressure on the budget, it was feasible to maintain the current level of reserves.

Members noted that as the financial climate became more challenging, the Council would have to make significant cuts and may even need to use some of its reserves. Mr Hall explained that if there was an overspent in the current year, it would account for nearly 10% of the existing reserves (1.5 million out of 12.3 million) and would cause a significant concern. However, there would be a bigger concern if the budget for the next financial year was not balanced as this would mean that there would be a consistent gap in the Council's finances.<sup>1</sup>

Mr Hall said that he had given the same advice in relation to using the Council's reserves to the Leader and the Chief Executive and that he was prepared to revise it in case the risk of a consistent gap materialised.

**RESOLVED** that:

- (i) The contents of the External Audit Progress Report, be noted;
- (ii) The contents of the discussion on the level of the Council's reserves be noted and be reflected in the Update Report from the Vice-Chair of the Audit and Standards Advisory Committee to Full Council on 26 November 2018; and
- (iii) The level of the Council's reserves be monitored.

## 9. **Internal Audit Progress Report for the period April - August 2018**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which provided an update on progress against the Internal Audit Plan for the period 1 April 2018 to 31 August 2018.

The Committee focused their attention on the completed audits from the 2018/2019 Audit Plan (Appendix 1, pages 65 and 66 of the Agenda pack) and acknowledged that the number of audits which had achieved 'reasonable' assurance had increased from previous years. However, Members raised a concern that related to the number of management actions that had been partly implemented or not implemented (Appendix 2, pages 67 and 68 of the Agenda pack). Mr Bradley explained that implementation rates had not been good in the past, hence follow up reviews were conducted. He assured the Committee that the Audit Team would revisit the status of the actions that had been highlighted.

A specific question on the findings of the Insurance audit was raised and Mr Bradley responded that there had been one high risk finding which related to the lack of contract with the supplier. He pointed out that the issue had been rectified and added that management responses, along with implementation dates, would be provided for all completed audits listed in Appendix 1 to the report.

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<sup>1</sup> Based on the draft budget which had been consulted on, the Council needs to achieve savings amounting to £20 million as per the [report discussed at the Cabinet meeting on 15 October 2018](#).

**RESOLVED** that the contents of the Internal Audit Progress Report for the period April – August 2018, be noted.

10. **Counter Fraud Quarterly Progress Report 2018/19**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which provided an update on counter fraud work for the period between 1 April 2018 and 30 September 2018. The paper covered all aspects of the work of the Counter Fraud and the Investigations teams, including internal fraud; tenancy and social housing fraud; external fraud; and proactive fraud activity. Mr Bradley said that the average value of each recovered property had been adjusted to £93,000 to reflect the actual value in the Borough as per the Committee's recommendation.<sup>2</sup> Members also heard that the Counter Fraud Team had led on a successful proactive exercise in June 2018 which had resulted in 11 Parking Charge Notices been issued and one vehicle towed for fraudulently displaying a cancelled Blue Badge.

The Committee raised questions that related to fraud awareness, actions that had been taken to prevent fraud and tenancy and social housing fraud. Mr Bradley said that as part of a campaign to raise awareness of fraud, the Team had delivered a presentation to all school business managers which had been focused on type of fraud that could happen in schools. Furthermore, the Council's policies had been refreshed, the website had been updated and assurance on controls and process had been provided to minimise the risk of fraud. Work on tenancy and social housing fraud continued, but referrals had not reached the levels experienced two years ago which was a positive indicator. The Counter Fraud Team worked closely with Housing and registered providers and poster campaign had been taking place across the Borough.

A Member enquired how an employee and their partner were able to commit fraud amounting to £280,000 and why the management action taken had been classified as prompt. The Chair informed Members that the Committee would not be able to discuss this matter further at this time due to ongoing criminal investigation. However, he noted that the case was due to be heard at a Magistrates' Court on Tuesday 23 October 2018. Conrad Hall (the Council's Chief Finance Officer) explained that the management action had been prompt from the time the fraud had been discovered and said that further details on this matter could be provided to Members following the conclusion of the court case.

The Committee placed on record their gratitude to the Counter Fraud and Investigation teams for the work they had completed.

**RESOLVED** that the contents of the Counter Fraud Annual Report 2017/18, be noted.

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<sup>2</sup> Resolution (iv) of Item 12 of the minutes of the Audit and Standards Advisory Committee meeting on 26 July 2018)



11. **Forward Plan and Agenda for the Next Meeting**

The Chair directed Members' Attention to the Committee's Forward Plan (page 77 of the Agenda pack). It was noted that:

- An update on the performance and management of i4B Holdings Ltd and First Wave Housing Ltd would be provided at the meeting on 5 February 2019;
- The 'Risk Management Annual review and Risk Management Strategy' item would be considered at the meeting on 5 February 2019; and
- The 'Strategic Risk Register' item would be considered at the meeting on 5 February 2019.

**RESOLVED** that the contents of the Audit Advisory Committee Forward Plan, be noted, subject to the comments outlined above.

12. **Any other urgent business**

None.

The meeting closed at 7.22 pm

DAVID EWART  
Chair