



Audit and Standards Advisory Committee

Wednesday 17 October 2018 at 6.00 pm
Boardrooms 7&8 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

David Ewart (Chair)

Councillors:

A Choudry (Vice-Chair)
Kansagra
Lo
Mashari
Nerva

Substitute Members

Councillors:

S Butt, Kabir, Long and Stephens

Councillors:

Colwill and Maurice

Independent Members:

Margaret Bruce
Robert Cawley
Sheila Darr
Karen McArthur

Independent Advisor:

Vacancy

For further information contact: Nikolay Manov, Governance Officer
Tel: 020 8937 1348; Email: nikolay.manov@brent.gov.uk

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting.

Notes for Members - Declarations of Interest:

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

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

If the Personal Interest is also 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 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 or trade union).
- (b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting 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 <ul style="list-style-type: none">➤ To approve the minutes of the Audit and Standards Advisory Committee meeting held on 26 July 2018 as a correct record.➤ To approve the minutes of the Audit and Standards Committee meeting held on 26 July 2018 as a correct record.	1 - 16
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 Annual Audit Letter 2017/18	17 - 26
The Council's external auditors, KPMG, 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 mis-statements or material weaknesses in controls identified during the audit work. It also provides the findings from the value for money conclusion for the year.	

Ward Affected:
All Wards

Contact Officer: Conrad Hall
Chief Finance Officer
Email: conrad.hall@brent.gov.uk
Tel: 020 8937 6528

7 2018/19 Mid-Year Treasury Report 27 - 42

The report updates Members on recent treasury activity.

Ward Affected:
All Wards

Contact Officer: Daniel Omisore
Head of Finance
Email: Daniel.omisore@brent.gov.uk
Tel: 020 8937 3057

8 External Audit Progress Report 43 - 60

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.

9 Internal Audit Progress Report for the period April - August 2018 61 - 68

The report provides an update on progress against the Internal Audit Plan for the period 1 April 2018 to 31 August 2018.

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@brent.gov.uk
Tel: 0208 937 6526

10 Counter Fraud Quarterly Progress Report 2018/19 69 - 76

The report provides an update on the counter fraud work undertaken in the period 1 April 2018 to 30 September 2018 (Quarters 1 and 2).

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@brent.gov.uk
Tel: 0208 937 6526

11 Forward Plan and Agenda for the Next Meeting 77 - 78

To note the Committee's Forward Plan and agree a draft agenda for the next meeting, which would be reviewed and finalised by the Chief Finance Officer, the Head of Audit and the Chair of the Committee one month after the date of the current meeting.

Ward Affected:
All Wards

Contact Officer: Conrad Hall
Chief Finance Officer
Email: conrad.hall@brent.gov.uk
Tel: 020 8937 6528

12 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: Tuesday 11 December 2018



- Please remember to ***SWITCH OFF*** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

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MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE **Held on Thursday 26 July 2018 at 6.00 pm**

PRESENT: Mr Ewart (Chair), Mr Sullivan (Independent Advisor, via Skype), Councillors A Choudry (Vice-Chair), S Butt, Kansagra and Nerva, and Independent Member Margaret Bruce

Also Present: Councillors S Choudhary, McLennan and Perrin

Everyone introduced themselves and the Chair explained the arrangements for the Audit and Standards Advisory Committee for the 2018/2019 Municipal Year.

1. Apologies for absence and clarification of alternate members

Apologies for absence were received from Councillors Lo (with Councillor S Butt substituting) and Mashari, and Independent Members Robert Cawley, Sheila Darr and Karen McArthur.

Mr Sullivan participated in the first part of the meeting remotely.

Conrad Hall (the Council's Chief Finance Officer) informed Members that he had received apologies for absence from Grant Thornton LLP, the Council's new external auditor, due to the high volume of work associated with the end of year accounts. It was **RESOLVED** that the Council's Chief Finance Officer would write to Grant Thornton LLP, expressing the Committee's disappointment with the firm not being able to send a representative to attend the meeting.

2. Declarations of Interest

David Ewart declared that he had worked together with Martin Smith, Chair of i4B Holdings Limited, at the London Borough of Ealing and that he had known Steve Lucas (Senior Manager, KPMG - External Audit).

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 Advisory Committee, held on 20 March 2018, be approved as an accurate record.

It was **RESOLVED** that the minutes of the previous meeting of the Standards Committee, held on 27 March 2018, be approved as an accurate record.

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

It was noted that an update on the operation of i4B Holdings Ltd and First Wave Housing Ltd had been included in the agenda for the present meeting.

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 (item 9 from the minutes of the previous meeting of the Audit Advisory Committee) would be circulated to all Members and would be discussed at the next meeting if necessary.

An update on the Public Sector Internal Audit Standards (PSIAS) self-assessment had been included in the Internal Audit Annual Report 2017/18 (Agenda Item 11).

6. **Standards Update**

Debra Norman (the Council's Director of Legal and Human Resources and the Council's Monitoring Officer) introduced the paper which provided an update on gifts and hospitality registered by Members and a recent High Court case on standards. She reminded the Committee that Members were required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50 individually or cumulatively from one person or organisation. Declarations were published on the Council's website and were open to inspection at Brent Civic Centre. Ms Norman directed the Committee's attention to Appendix 1 to the report which set out the gifts and hospitality registered by Members in the period between 20 March and 30 June 2018. Furthermore, since 14 May 2018 onwards Members had been required to record the value or the approximate value of gifts and hospitality (among other details) and an update would be provided in the next quarterly update report.

Ms Norman spoke of a recent High Court case on standards concerning Ledbury Council's decision to impose sanctions on a Councillor under its staff grievance procedures, banning them from serving on any committees and from communicating with any staff, following complaints of bullying and harassment. The High Court had decided that councils cannot run a grievance procedure alongside, or as an alternative to, a standards procedure under the Localism Act 2011, and that complaints regarding a Member's conduct had to be dealt with under the Council's standards arrangements. Furthermore, the Court had noted that the involvement of the Independent Person in the formal Members' complaint process was an important safeguard which could not be bypassed.

Ms Norman informed Members that interviews for the Independent Person vacancy been concluded and that Mr William Goh had been appointed.

RESOLVED that the contents of the Standards Update report, be noted.

Mr Sullivan left the meeting at 6:10 pm due to poor internet connection.

7. **Emergency Preparedness Update**

Carolyn Downs (the Council's Chief Executive) introduced the paper which outlined the progress made against the recommendations of the Emergency Preparedness

Task Group Report presented to the Audit Advisory Committee in January 2018. It also contained information about the type and number of incidents in the Borough since January 2018 and the initiatives and the programmes of work under way to enhance Brent's resilience and response arrangements. Ms Downs highlighted that 15 senior managers had been trained as incident Silver and an on-call rota had been in place since 20 November 2017. Furthermore, the Emergency Planning College had delivered a Member's awareness session on the role of Councillors during a Civil Emergency and was due to deliver training for incident Silver officers. Ms Downs noted that further details about specific actions could be found in section three of the report (pages 23 and 24 of the Agenda pack).

Members welcomed the report and expressed their satisfaction that the work of the Task Group had been taken forward. However, they enquired whether all Councillors could be provided with out of office contact numbers for key officers and organisations and it was agreed that Daryl Jooste (the Council's Civil Contingencies Manager) would circulate a list.

RESOLVED that:

- (i) The contents of the Emergency Preparedness Update report, be noted;
- (ii) The Committee's appreciation of the work of the Emergency Planning Team be formally recorded; and
- (iii) A list of out of office contact numbers for key officers and organisations be circulated to all Elected Members.

8. Report on i4B Holdings Ltd and First Wave Housing Ltd

Martin Smith (Chair of i4B Holdings Limited) introduced the report which reflected the discussion that had taken place at the Audit Advisory Committee meeting in March 2018 and its emphasis was on the impact of the Council's wholly owned investment company – i4B Holdings Ltd (i4B / the Company) on the Local Authority.

Mr Smith informed the Committee that developing the Company's risk register had required a long period of time as it had been necessary to gain a clear understanding which risks related to i4B and which had an impact on the Council. Furthermore, the Company's risk register had become more sophisticated as it contained information about the status of a risk (live or closed), while risks related to the operation of i4B had been included in the Council's risk register. Members heard that Directors took risks seriously and that the register was reviewed at every Board meeting, e.g. on a monthly basis. Furthermore, recommendations from outstanding audits had been taken on board and an action plan for their implementation had been created (Appendix 4 on pages 65-69 of the Agenda pack).

In relation to the benefits for the local authority, Mr Smith commented that the Company operated at a loss, which was in line with its Business Plan, but it was expected to make a small surplus in the third year of its existence. It was noted that challenges related to rent collection and a slower rate of acquisition of properties had contributed to the Company being forecast to break even later than it had been

originally anticipated (section five of the report on pages 32-34 of the Agenda pack). As far as non-financial benefits were concerned, Mr Smith said that Company had helped the Council to avoid costs associated with placing residents in temporary accommodation – as of June 2018, 123 Brent families had been placed in i4B properties which were in good condition and had a generally affordable rent (section six of the report on pages 35-36 of the Agenda pack).

Mr Smith directed the Committee's attention to First Wave Housing Ltd (FWH) – the Council's other wholly owned company – and said that given the similarities between FWH and i4B, it had been agreed that where applicable, the findings from audits for i4B would be implemented for FWH. Nevertheless, a schedule of internal audit arrangements had been developed. Two internal audits had been planned so far – Fraud Risk Assessment which would start during the week commencing 13 August 2018 and Responsive Repairs Process which was due to commence in second week of October.

The Committee heard that a fifth Director who had worked for a housing association had been appointed to i4B Holdings Ltd and First Wave Housing Limited which ensured that the Boards of both companies consisted of an odd number of members.

As the Independent Advisor to the Committee could not participate in this part of the meeting, it was suggested that he could put his comments related to aligning the risks for the Company and the Council in writing so officers could consider them and prepare a response. In relation to the Company's funding, expenditure and possible loss, Carolyn Downs (the Council's Chief Executive) noted that taking into account the level of financial risks to which the local authority was exposed, any financial risk for i4B was a risk to the Council.

The Committee commended the savings and the social value the i4B had brought to the Council and enquired about factors that had to be considered if the Company was to develop properties. Conrad Hall (the Council's Chief Finance Officer) explained that the advice the company had received from independent property experts had been that it should be critical towards itself despite the good start it had made. The Council's ambition of what the Company could achieve had been incorporated into its Business Plan which contained a substantial development programme. However, the Directors had to consider if such an initiative would be financially viable. Mr Smith added that developing properties could be a volatile venture and reminded Members that the Company had purchased 155 properties against a target of 200 by 31 March 2018 and 300 by 30 September 2018 and aimed to own 600 units by 2021. Directors had considered the potential for i4B to take on new developments part of Council schemes in the Borough. Mr Smith emphasised that it was important the Council considered i4B and FWH as a preferred option for delivering social housing. This led to a question whether this would be subject to competition from other providers. Ms Smith clarified that i4B existed to fulfil the Council's objectives and could not take actions outside its Business Plan which had been agreed by Cabinet. Therefore, if the Local Authority was considering sites for development, it was logical to look at in-house options to deliver a scheme prior to approaching external enterprises. However, Directors acknowledged that this could not always be possible so there would be opportunities for external developers to get involved. However, in Mr Smith's view,

i4B and FWH should be treated as private sector entities which could compete on the open market.

A Councillor who was in attendance at the meeting noted that property prices had dropped and were expected to reach the levels of 2010 by 2022. They questioned why the Local Authority was investing money in a scheme that could generate a loss. Mr Hall responded that even should the statement about property prices prove correct, if no changes to Housing Benefit allowances were made, the rent collected from i4B properties would be sufficient to service the Company's debt and additional savings could be achieved by moving families out of temporary accommodation as it was cheaper for the Council to house them in i4B properties. Furthermore, the risk that prices could fall had been acknowledged, but historically such dips had not lasted long and the Local Authority could afford to be a long-term investor. Therefore, it could be possible to conclude that benefits associated with the Company outweighed the risks.

RESOLVED that:

- (i) The contents of the report on i4B Holdings Ltd and First Wave Housing Ltd, be noted;
- (ii) The Committee noted:
 - The recent appointment of a fifth Board member to the i4B and First Wave boards
 - The updates to the i4B risk register and summary of key risks
 - The summary of financial and non-financial benefits of i4B's operations
 - The update on recent i4B audit activity, and progress towards implementing previous audit recommendations
 - The update on First Wave Housing Limited's planned programme of internal audits
- (iii) The Independent Advisor to the Committee be asked to put his comments related to aligning the risks for i4B and the Council in writing to allow officers to consider them and prepare a response.

9. Brent Council Borrowing Strategy 2018/19 - 2020/21

Daniel Omisore (Head of Finance at Brent Council) introduced the paper and explained that in order to deliver its capital programme, it was likely that the Council would be required to borrow up to £230 million by 2020/21 and potentially more thereafter.

He also noted that the proposals set out in the paper are all within the operating boundaries already approved by Cabinet when setting the Treasury Management Strategy and Prudential Indicators for 2018/19 as part of the budget setting process.

Mr Omisore set out some of the reasons for this borrowing requirement, including historical capital spend, the current c£800m capital programme and the previous borrowing strategy which has been to utilise cash reserves, cash balances and

cash flow in lieu of borrowing in order to avoid interest costs. However the operating environment is changing. The council has an ambitious capital programme to deliver and over time cash balances are expected to reduce as reserves are drawn down to pay for earmarked and other projects. Having carefully considered these factors and projecting forward the balance sheet as set out in section 5 (page 101) the analysis points to a significant borrowing requirement by 2019/20.

Alongside this, given that interest rates are predicted to rise (para 6.8 – page 104) it makes sense to utilise a forward borrowing option as part of a wider borrowing strategy. The benefit of such an arrangement is that it allows the Council to agree a fixed rate in advance (that is broadly comparable with PWLB rates) for delivery in the future which would be in parallel to our capital commitments as profiled in the 3 year budget. As interest payments do not commence until the loan starts the Council is able to hedge against interest rate exposure.

The scale of the sums involved means this would be one of the biggest transactions the Council will have undertaken in many years so it was important to consider a number of funding options such bank debts, the Public Works Loan Board (PWLB), Local Authorities, the Municipal Bond Agency, Pension Funds and Cash Balances.

Mr Omisore outlined the advantages and disadvantages of each alternative (paragraph 4.6 of Appendix A to the report (pages 98-100 of the Agenda pack)) and reiterated that all options would be considered as part of a diverse borrowing strategy.

He said that borrowing money from the PWLB might not be a preferred option at this time as it did not offer what the Council was looking for – i.e. fixing the interest rate at the present levels and drawing the money in the next two/three years. As far as borrowing from the Municipal Bonds Agency was concerned, it was noted that this will also be considered at the time but will be dependent on economic and other market factors.

Mr Omisore went on to say that a forward borrowing option allowed Brent to arrange money for the future, but the Council had to draw the sum down on the pre agreed date even if they did not use it. However, given the scale of the capital programme, it was very unlikely that the funds would not be needed. It is also possible to agree a guaranteed interest rate which would not be charged until the money was withdrawn and could be fixed for a period varying from 20 to 40 years. Members heard that under this arrangement the interest rate offered by banks to the Council was comparable to the PWLB and it would be possible to conduct several transactions with various banks which would minimise the risk.

Mr Omisore noted that the preferred approach was to initially borrow a much smaller sum, say up to £40m and to directly engage with potential lenders bringing in the necessary expertise as and when required. This would not only be cost effective, but it would help the Council to build up internal capacity which would allow the treasury function to undertake similar deals in future should opportunities arose.

The Committee welcomed the report and thanked Mr Omisore and his team. The Committee also noted that ultimately whatever approach was pursued all would come with an element of risk.

A Member who was in attendance at the meeting enquired whether it could be possible to use cash reserves to fund capital projects. Mr Omisore explained that various options (including cash reserves) had been considered in the preparation of the report and that the Council have historically used cash to fund capital projects recently thereby avoiding interest costs, however the Council's cash reserves are forecasted to decline in the future. Therefore, using cash to meet Brent's borrowing requirement would not be sustainable in the long term. In addition, the Council's Borrowing Strategy will be implemented in such a way so it will fund capital demands as they arise based on known capital commitments in the capital programme, without having to borrow the full value of the capital programme up front.

RESOLVED that:

- (i) The contents of the Brent Council Borrowing Strategy 2018/19 – 2020/21 Cover Report, be noted.
- (ii) The borrowing strategy set out in Appendix A to the report be endorsed, including:
 - The role the Treasury Management Strategy had played in recent years in contributing to revenue savings
 - The competing forces that meant this strategy would not be sustainable in the coming years (i.e. rising interest rates, reducing cash balances, major capital investment commitments, expanding pipeline, revenue savings)
 - The options Brent had with regard to borrowing externally
 - The estimated borrowing requirement from 2019/20 onwards (c£230m)
 - The direct engagement with potential lenders and buying in the necessary expertise as and when required which would allow the Council to develop internal capacity
- (iii) Appendix A to the report be presented to Cabinet for approval in September 2018.

10. 2017/18 Treasury Management Outturn Report

Sawan Shah (Finance Analyst at Brent Council) introduced the report which updated Members on Treasury Management activity over the last financial year and provided information on the current level of investments and borrowing. Mr Shah spoke of the economic background over the past year and noted that the UK economy had grown at the same pace in 2017 as in 2016. Q1 2018 Gross Domestic Product had showed year-on-year growth of 1.2% but the most recent quarterly growth rate had been 0.1%. Political events had continued to give rise to a very uncertain environment – although economic activity had gained momentum in the Eurozone and the US economy had continued to grow steadily, uncertainties over Brexit, geopolitical tension and the imposition of tariffs that had been initiated by the US had had a negative impact on the economy.

Referring to Brent Council, Mr Shah said that the Local Authority had a portfolio of long-term borrowing, amounting to £411 million, which had been used to finance previous years' capital programmes. With short-term interest rates being much

lower than long-term rates, it had been more cost effective in the short-term to use internal resources rather than undertake further long-term borrowing. By doing so, the Council had been able to reduce net borrowing costs and had been successful in reducing the overall treasury risk as overall long-term borrowing had been reduced slightly. However, it might not be possible to continue using internal resources in the future so the situation would need to be monitored. In relation to investment activity, Mr Shah noted that interest rates on the Council's investments rose slightly as a result of the Bank of England's decision to increase interest rates.

The Committee welcomed the report.

RESOLVED that:

- (i) The contents of the 2017/18 Treasury Management Outturn Report, noted; and
- (ii) The 2017/18 Treasury Management Outturn Report be forwarded to Council in compliance with the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.

Councillor Perrin left the meeting at 7:00 pm.

11. **Internal Audit Annual Report 2017/18**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which presented a summary of the Internal Audit work, included an opinion of the overall adequacy and effectiveness of the Council's internal controls and commented on follow up reviews undertaken by the team. Mr Bradley noted that the level of implementation of recommendations of past audits had been good. He directed the Committee's attention to Appendix A (page 139 of the Agenda pack) which contained details of key findings from audits of high-priority areas undertaken in 2017/18.

In relation to the self-assessment against the Public Sector Internal Audit Standards (PSIAS), Mr Bradley informed Members that as the peer review process administered by the London Borough of Croydon had not been successful in identifying another Local Authority to undertake the peer review at Brent, it had been proposed that the newly appointed Internal Audit Manager conducted it.

The Chair commented on the high number of limited assurance audits (paragraph 3.8 of the report (pages 134-135 of the Agenda pack)) and said that, although this was a concern, it was a sign that the Audit Team had been selecting audit areas effectively. The Committee endorsed the work that had been carried out on follow up reviews as audits did not add much value to services unless their recommendations had been addressed. Although Members expressed concern that key financial systems such as Treasury Management and Payroll continued to receive limited assurance, it was noted that actions had been taken to address this.

The Committee thanked the Internal Audit Team for their work.

RESOLVED that the contents of the Internal Audit Annual Report – 2017/18, be noted.

12. **Counter Fraud Annual Report 2017/18**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which provided an update on the counter fraud work for the period between 1 January 2018 and 31 March 2018. He said that the Counter Fraud Team had focused their work on internal fraud, tenancy and social housing fraud, external fraud and proactive counter fraud activity (sections three, four, five and seven of the report (pages 147-156 of the Agenda pack). The Chair conveyed a comment on behalf of the Independent Advisor that using the average national value of each recovered property as calculated by the Audit Commission at £18,000 had been an underestimate in Brent and requested the figure to be adjusted to reflect the actual value in the Borough.

The Committee noted that despite the reduced amounts of funding the Local Authority received, its remit had expanded which meant that there could be more opportunities for fraud and enquired what measures could be taken to address this. Mr Bradley said that the Counter Fraud Team had been effective in targeting areas to work in. He pointed out that although senior managers across the organisation had been supportive of the work of the Team, understanding risks remained important so more could be done in relation to risk management, especially in times of change.

A Member asked if the scope of the work of Audit and Investigations Service covered the Council's wholly owned companies – i4B Holdings Ltd and First Wave Housing Ltd. In response, Mr Bradley explained that the Council provided internal audit services to the companies while PricewaterhouseCoopers (PwC) had been contracted to be First Wave Housing's external auditors. Furthermore, as Head of Audit and Investigations, Mr Bradley was responsible for preparing the Audit Plans for the companies which outlined the work that would be completed throughout the year. The Committee requested that any audit and counter fraud reports prepared for the companies were included in agendas for future meetings.

RESOLVED that:

- (i) The contents of the Counter Fraud Annual Report 2017/18, be noted;
- (ii) The Committee's appreciation for the work of the Counter Fraud Team be formally recorded;
- (iii) Audit and counter fraud reports prepared for i4B Holdings Ltd and First Wave Housing Ltd be presented to the Audit and Standards Advisory Committee; and
- (iv) The average value of each recovered property be adjusted to reflect the actual value in the Borough.

13. **Brent Council Annual Governance Statement 2017/18**

Michael Bradley (the Council's Head of Audit and Investigations) introduced the report which set out the draft Annual Governance Statement (AGS) for 2017/18 as required by the Accounts and Audit Regulations 2015. He highlighted that although escalation of risks to senior management had been an area of weakness for the Local Authority, no significant governance issues had been identified.

Members noted that the sections on the Scrutiny Committees and the Audit and Standards Advisory Committee 4.4.4, 4.4.5 and 4.4.6 (pages 171-172 of the Agenda pack) had to be updated for future reference.

RESOLVED that:

- (i) The contents of the draft 2017/18 Annual Governance Statement cover report, be noted;
- (ii) The draft 2017/18 Annual Governance Statement be referred to the Leader of the Council and the Chief Executive to sign;
- (iii) The signed 2017/18 Annual Governance Statement be circulated to all Elected Members via the Members' Bulletin.

14. Risk Management Framework Review

Michael Bradley (the Council's Head of Audit and Investigations) introduced the paper which provided an update on the conclusions of a Risk Management Framework Review and feedback on a new approach that had been piloted with two departments. Mr Bradley said that a review of the risk management framework had been undertaken as per of the internal audit plan. It had assessed the policy and procedures in place; the process and reporting of risk identification; treatment and monitoring; and the risk culture of the organisation.

Members of the Committee welcomed the report and noted that the Council's attitude towards risk management had improved. However, they enquired what steps had been taken to encourage Heads of Service to become involved in risk management and take responsibility for specific risks. Mr Bradley explained that discussions how individuals could be trained to own and manage risks at service level would take place at Corporate Management Team (CMT) and Departmental Management Team (DMT) meetings.

The Committee noted that it was the 2018 Risk Management Criteria and Thresholds template that had been provided as Appendix A to the report and not the 2014 one.

RESOLVED that:

- (i) That the contents of the Risk Management Framework Review report, be noted; and
- (ii) The draft implementation plan to embed the Risk Management Strategy be endorsed.

15. External Audit Progress Report

The Chair informed Members that the External Audit Progress Report had been incorporated within the report to those charged with governance (the ISA260 report).

It was noted that work on the objection relating to the Lender Option Borrower Option (LOBO) loans had been nearly completed and provisional findings would be issued in August or September 2018. Andy Sayers (Partner, KPMG – External Audit) commented that this deadline would allow KPMG to address aspects that had been raised with other Local Authorities which accelerate reaching a final position on the objection to Brent's accounts.

RESOLVED that the contents of the update on LOBO loans provided by Mr Sayers, be noted.

16. **Order of Business**

It was **RESOLVED** that Agenda items 16 (Statement of Accounts & External Auditor's Report) and 17 (Draft Statement of Accounts) be considered under a single Agenda item.

17. **Statement of Accounts & External Auditor's Report and Draft Statement of Accounts**

The Chair provided 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 first year when the Council's accounts had to be completed by 31 July (the previous deadline had been 30 September). A Draft Statement of Accounts had been published on the Council's website in late May and updated versions had been circulated on Friday 20 July 2018 and Thursday 26 July 2018. The draft ISA260 report had also been circulated on Friday 20 July 2018.

Benjamin Ainsworth (Head of Finance at Brent Council) introduced the Draft Statement of Accounts 2017/18 and the External Auditors Report to those charged with governance (the ISA260 report). Referring to the ISA260 report he said that it set out the anticipated results of the audit as per paragraph 3.3 of the Cover Report (page 186 of the Agenda pack). Furthermore, the version of the report included in the Second Supplementary Agenda pack explained the difference between the previous version of the Draft Statement of Accounts and the one published on the day of the meeting (changes to the previous version of the ISA260 report had been highlighted in red). Mr Ainsworth informed Members that the Draft Statement of Accounts had been considered by Cabinet on 16 July 2018 and it was expected that it would be signed by the statutory deadline of 31 July 2018. He explained that the Council and one of its wholly owned companies – i4b Holdings Ltd – were audited by KPMG, while the other wholly owned company – First Wave Housing Ltd (FWH) – was audited by PricewaterhouseCoopers (PwC) which meant that PwC had to sign off the FWH accounts before KPMG could sign the Group Accounts for the Council and the companies.

Conrad Hall (the Council's Chief Finance Officer) notified the Committee of a complication that had arisen – PwC had been provided with a Statement of Accounts which had the wrong date on it. Guy Flynn (Director, PwC – External Audit, FWH) explained that although the mistake had been rectified, the statutory auditor, authorised to sign the accounts on behalf of PwC, was out of the country with no access to internet. Members expressed their discontent with the situation, pointing out that this left KPMG a very short period of time to consider the group

accounts. Mr Flynn clarified that no changes had been made to the FWH accounts apart from the date on which they had been signed. Mr Hall stated it had been the Council's error that the accounts had not been dated correctly and by the time this was identified, the statutory auditor had left the country. Andy Sayers (Partner, KPMG – External Audit) said that if PwC made the necessary arrangements to deliver the signed FWH accounts to KPMG on the morning of 30 July 2018, KPMG's team would be able to examine the document and finalise the Council's Statement of Accounts by 31 July 2018.

It was **RESOLVED** that PwC would make the necessary arrangements to deliver scanned copies of the signed FWH 2017/18 Draft Accounts to KPMG and Brent's Chief Finance Officer who would provide an update to the Committee.

Mr Sayers referred to the ISA260 report and said that the materiality for both the Authority's accounts and the Pension Fund had been set at £12 million, which represented 1.1% of gross expenditure and 1.5% of gross assets respectively. He confirmed that KPMG had received the updated Statement of Accounts and were conducting final checks, but no significant issues were expected to be identified. Mr Sayers said that since the accounts had been first issued in May 2018 there was one minor unadjusted audit difference and six adjusted audit differences to the Authority's accounts and one adjusted audit difference to the Pension Fund (for details, please see Appendix 2 to the ISA260 report (page 425 of the Agenda pack). Nevertheless, Mr Sayers expected KPMG to issue unqualified opinions on the Authority's financial statements and to the Pension Fund's financial statements.

The unadjusted audit difference related to the National Non-Domestic Rates Return (NNDR) provision for appeals of £5.1 million which had been classified in long-term provisions when a proportion should have been classified as short-term provisions. Officers had decided not to adjust for this as there was no impact on the income and expenditure account and it only effected the split between short- and long-term provisions. In relation to adjusted audit differences, Mr Sayers said that they fell into three principal areas – property, plant and equipment. The Social Discount Factor for Council dwellings had not been taken account of in relation to £30 million of additions which had resulted in an adjustment being required reducing the value of Council dwellings by £22.5 million. Furthermore, properties worth £2.4 million that had been transferred to i4B Holdings Ltd (i4B), but this would not have impacted the Group Accounts. Some of the other adjustments included – for example, the soft loan between the Council and i4B had been accounted for in different ways when it should have been accounted for on a consistent basis in both entities and the profit on the disposal of properties sold to i4B during the year had not been removed. Members heard that the overall number of adjustments in the current year was not higher than in previous years which was a positive indicator, especially when the shorter deadline for completing the accounts had been taken into account.

Mr Sayers referred to the Lender Option Borrower Option (LOBO) loans and said that the National Audit Office had issued guidance on how LOBOs should be accounted for which had been implemented (for details, please see page 413 of the Agenda pack). In addition, all control recommendations had been accepted by the Council's management and recommendations from previous years had been implemented.

Members of the Committee questioned why the level of prudence of property, plant and equipment had been reduced. Steve Lucas (Senior Manager, KPMG - External Audit) explained that the Council had used external property experts to determine the appropriate change in value of Council dwellings in Brent which had been determined to be 0.5% (£6 million). This materially meant there had not been movement and the value for the year had not been increased. In addition, responding to a question about short term creditors, Mr Lucas said that the level of accruals had been calculated using purchase orders, long term contracts and invoices. As there had been variances, it had been necessary to make estimations to ensure that the accounts would be completed on time.

Mr Sayers did not comment on a question whether the Local Authority had a sufficient level of reserves, but explained that the bigger reserves were, the greater risks could be taken by the Council, therefore the appropriate risk governance procedures had to be in place. However, although he did not have concerns regarding Brent's position, Mr Sayers said that it was important for the Local Authority to focus on delivering its budget and on monitoring contracts. Moreover, KPMG had been satisfied with the budget-setting process and Mr Sayers advised that the Chief Finance Officer determined the minimum levels of reserves required. Mr Hall reiterated that financial controls had been very strong and the Council had not overspent in the last five years which provided confidence that it could continue to manage expenditure in an effective way.

The Committee directed its attention to the letter of representation and requested KPMG to highlight any areas Members should be aware of. Mr Sayers said that KPMG expected a confirmation that there had not been changes to the public finance initiative and agreed to send the exact wording to reflect this to Conrad Hall.

Mr Sayers pointed out that depending on the outcome of the LOBO objection, this could have been the last meeting attended by him and Mr Lucas.

RESOLVED that:

- (i) The contents of the Statement of Account 2017/18 and External Auditor's Report, be noted; and
- (ii) The Audit and Standards Committee be recommended to:
 - Approve the statement of accounts
 - Approve the letter of representation to KPMG
- (iii) The Letter of Representation be amended to include the wording on the public finance initiative provided by KPMG;
- (iv) The Statement of Accounts 2017/18 be circulated to Members once it had been finalised and the Chair of the Audit and Standards Committee had signed it; and
- (v) The Committee's appreciation of the work of KPMG in the last five years be formally recorded;

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

The Chair encouraged Members to notify the Head of Audit and Investigation, the Chief Finance Officer and the Governance Officer, supporting the meeting, if they wanted to propose an item to be added to the Forward Plan or the agenda for a specific meeting.

RESOLVED that the contents of the Audit Advisory Committee Forward Plan, be noted.

19. **Any other urgent business**

None.

The meeting closed at 8.09 pm

DAVID EWART
Chair



LONDON BOROUGH OF BRENT

MINUTES OF THE AUDIT AND STANDARDS COMMITTEE held on Thursday 26 July 2017 at 8.09 pm

PRESENT: Councillors A Choudry (Chair), S Butt, Kansagra and Nerva

ALSO PRESENT: Councillors S Choudhary and McLennan

1. Apologies for Absence and Substitutions

Apologies for absence were received from Councillors Lo (with Councillor S Butt substituting) and Mashari.

2. Declarations of Personal and Prejudicial Interests

None.

2. Deputations

There were no deputations received.

3. Statement of Accounts 2017/2018 and External Auditor's Report

Following the resolution (ii) of Minute item 17 of the Audit and Standards Advisory Committee meeting on 26 July 2018, the Audit and Standards Committee unanimously decided to accept the recommendation and approve the draft Statement of Accounts and the letter of representation to KPMG.


It was **RESOLVED that:**

- (i) The draft Statement of Accounts 2016/2017 be approved;
- (ii) The letter of representation to KPMG be approved;
- (iii) The Chair be authorised to sign the Statement of Accounts 2017/18 once it had been finalised; and
- (iv) The signed Statement of Accounts 2017/18 be circulated to Members.

The meeting closed at 8:10 pm.

COUNCILLOR ASLAM CHOUDRY
Chair

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	Audit Advisory Committee 17 October 2018
	Report from the Chief Finance Officer
Annual Audit Letter 2017/18	

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One: • KPMG's Annual Audit Letter 2017/18
Background Papers:	
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall Chief Finance Officer Email: conrad.hall@brent.gov.uk Tel: 020 8937 6528 Ben Ainsworth Head of Finance Email: benjamin.ainsworth@brent.gov.uk Tel: 020 8937 1731

1.0 Purpose of the Report

- 1.1 The Audit Committee has responsibility for considering issues raised by the external auditors as part of the process of approving the annual statement of accounts. The Council's external auditors, KPMG, 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 mis-statements or material weaknesses in controls identified during the audit work. It also provides the findings from the value for money conclusion for the year.
- 1.2 KPMG has given unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion.

2.0 Recommendations

- 2.1 The Committee is asked to review the Audit Letter to those charged with Governance from KPMG and consider the key issues and recommendations.

3.0 Detail

Annual Audit Letter

- 3.1 The final certified statement of accounts for 2017/18 was published on the Council's website on 31 July 2018, as required by statutory regulation. This timescale is two month earlier than last year and has required the Council to both shorten its processes and make more use of estimation to produce the accounts on time.
- 3.2 The Annual Audit Letter addressed to the Members of the Authority was issued in August 2018 and sets the external auditors' unqualified opinion of the financial statements with the following key points:
- One non-adjusted audit difference was identified relating to the classification of National Non Domestic Rates provisions between long and short term which has no impact on the comprehensive income and expenditure account (CIE)
 - Six adjusted audit differences were found, four in the area of Property Plant and Equipment (PPE), although there was no overall impact on the CIE or usable reserves. Recommendations were made to strengthen controls around the asset register
 - Positive feedback on the accounts production and audit process was made and no other significant issues arose from their work
 - The Authority has appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

4.0 Financial Implications

- 4.1 There have been some adjustments to the Statement of Accounts during the course of the audit none of these have impacted on the medium term financial position of the Council.
- 4.2 Arrangements are being made to improve processes in line with recommendations made.

5.0 Legal Implications

- 5.1 No specific implications.

6.0 Equality Implications

- 6.1 No specific implications.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

Report sign off:

CONRAD HALL
Chief Finance Officer



Annual Audit Letter 2017/18

London Borough of Brent

August 2018

Contents

The contacts at KPMG in connection with this report are:

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2. Audit fees	7

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

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

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

<p>This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Brent in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.</p> <p>Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.</p>	<table> <tr> <td data-bbox="509 294 700 1260"> <p>Audit opinion</p> </td><td data-bbox="700 294 1972 408"> <p>We issued an unqualified audit opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The unqualified audit opinion covered the financial statements of the pension fund.</p> </td></tr> <tr> <td data-bbox="509 408 700 1260"> <p>Financial statements audit</p> </td><td data-bbox="700 408 1972 1260"> <p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's financial statements was set at £12 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £12 million which is approximately 1.5 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million for the Authority and £0.6 million for the Pension Fund.</p> <p>We identified one non adjusted audit difference of £5.1 million in the Authority's financial statements relating to the National Non Domestic Rates (NNDR) appeals provision, which was classified in long term provisions when a proportion should have been classified as short term provisions. This does not have any impact on the comprehensive income and expenditure account or net assets of the Authority as it only effects the split between short and long term provisions.</p> <p>In addition, there were six adjusted audit differences to the Authority's financial statements, four of which related to Property, Plant and Equipment (PPE). The overall impact of the adjustments was to decrease the technical accounting value placed on the net assets of the Authority by £26.8 million, although there was no overall impact on the comprehensive income and expenditure account or usable reserves.</p> <p>Our audit work was designed to specifically address the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – our audit work included detailed testing on journals and estimates made by management; — Valuation of PPE – our audit work included engaging our KPMG valuation specialist to review the assumptions and valuations made by the Authority's valuer in revaluing assets and checking additions and disposals were correctly recorded and accounted for: We identified four audit adjustments relating to PPE, the most significant being that the Social Discount Factor for Council dwellings had not been taken account of in relation to £30 million of additions. This resulted in an adjustment which reduced the value of Council dwellings by £22.5 million. We also made a recommendation in relation to strengthening controls around the fixed asset register. </td></tr> </table>	<p>Audit opinion</p>	<p>We issued an unqualified audit opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The unqualified audit opinion covered the financial statements of the pension fund.</p>	<p>Financial statements audit</p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's financial statements was set at £12 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £12 million which is approximately 1.5 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million for the Authority and £0.6 million for the Pension Fund.</p> <p>We identified one non adjusted audit difference of £5.1 million in the Authority's financial statements relating to the National Non Domestic Rates (NNDR) appeals provision, which was classified in long term provisions when a proportion should have been classified as short term provisions. 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This resulted in an adjustment which reduced the value of Council dwellings by £22.5 million. We also made a recommendation in relation to strengthening controls around the fixed asset register.
<p>Audit opinion</p>	<p>We issued an unqualified audit opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The unqualified audit opinion covered the financial statements of the pension fund.</p>				
<p>Financial statements audit</p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's financial statements was set at £12 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £12 million which is approximately 1.5 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million for the Authority and £0.6 million for the Pension Fund.</p> <p>We identified one non adjusted audit difference of £5.1 million in the Authority's financial statements relating to the National Non Domestic Rates (NNDR) appeals provision, which was classified in long term provisions when a proportion should have been classified as short term provisions. This does not have any impact on the comprehensive income and expenditure account or net assets of the Authority as it only effects the split between short and long term provisions.</p> <p>In addition, there were six adjusted audit differences to the Authority's financial statements, four of which related to Property, Plant and Equipment (PPE). The overall impact of the adjustments was to decrease the technical accounting value placed on the net assets of the Authority by £26.8 million, although there was no overall impact on the comprehensive income and expenditure account or usable reserves.</p> <p>Our audit work was designed to specifically address the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – our audit work included detailed testing on journals and estimates made by management; — Valuation of PPE – our audit work included engaging our KPMG valuation specialist to review the assumptions and valuations made by the Authority's valuer in revaluing assets and checking additions and disposals were correctly recorded and accounted for: We identified four audit adjustments relating to PPE, the most significant being that the Social Discount Factor for Council dwellings had not been taken account of in relation to £30 million of additions. This resulted in an adjustment which reduced the value of Council dwellings by £22.5 million. We also made a recommendation in relation to strengthening controls around the fixed asset register. 				

Financial statements audit (Continued)	<ul style="list-style-type: none"> — Pensions Assets and Liabilities – our audit work included considering the assumptions used for key estimates such as discount rates, inflation and salary increases against those provided by our specialist and reviewing the information provided by the Authority to the actuary; and — Fast Closure - the revised deadlines for submission of draft and signed financial statements was brought forwards to 31 May 2018 and 31 July 2018 respectively. We worked closely with officers in preparation for this, which included advancing some audit work into the interim visit, to help ensure these deadlines were achieved. <p>Other than the comments above on PPE, there were no significant issues arising from our work in these areas.</p>
Other information accompanying the financial statements	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were materially consistent with our understanding and did not identify any issues.</p>
Pension Fund audit	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. There was one audit adjustment which reduced investments by £1.0 million.</p> <p>We identified the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – our audit work included detailed testing on journals and estimates made by management; — Valuation of unquoted investments – our audit work included directly confirming the valuation of these investments included with the pension fund financial statements to the valuations provided by the Fund Managers, reviewing Fund Managers latest ISAE 3405 controls reports and where the valuations are based on unaudited accounts, comparing the changes between the unaudited and audited accounts of the previous period to confirm the recent history of the accuracy of unaudited accounts. we also reviewed movements in the year to confirm there were not any unexpected changes. <p>There were no significant issues arising from our work in these areas.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. Following a number of adjustments, we reported that the Authority's pack was consistent with the audited financial statements.</p>
Value for Money conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017/18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>

Value for Money risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. We identified delivery of budgets and contract monitoring as areas of audit focus.</p> <p>Delivery of budgets - The Authority's outturn for 2017/18, which required £19.8 million of savings to be delivered, showed that it was £0.1 million overspent on a budget of £254 million. Individual Directorates also performed close to budget with Community Wellbeing showing a £0.9 million overspend and regeneration a £1.0 million underspend. The Authority takes a long term approach to financial planning ensuring that savings required are identified in advance. For 2018/19, savings of approximately £12 million had been identified and agreed in the medium term financial plan in February 2017. This helped a balanced budget to be set with the Authority increasing Council Tax by 4.99%. Given that elections were to be held in May 2018 and the 2018/19 budget was approved in February 2018, Cabinet were made aware that £30 million of savings were required in 2019/20 and 2020/21 but did not have individual schemes presented to them to approve this year. The new Cabinet received details of the approach for developing the 2019/20 budget and the new medium term financial plan in July 2018 and will need to work with officers to identify and agree savings for 2019/20 onwards.</p> <p>Contract monitoring - The Authority continues to work closely with partners and third parties and having gone through competitive tendering processes in line with the Authority's regulations, it is vital that contract terms and agreed performance indicators are monitored closely to ensure that the Authority obtains maximum value for money from these contracts. We selected two of the larger contracts with SERCO and Veolia and reviewed the ongoing monitoring arrangements. We noted both contracts had monthly reports on service performance and key indicators provided by the contractor with meetings with the contractors to discuss these reports. In addition other regular meetings are held for instance to discuss specific operational issues or at a higher level the strategic direction of the contract.</p> <p>There were no significant issues arising from our work in these areas.</p>
High priority recommendations	We raised no high priority recommendations as a result of our 2017/18 work.
Certificate	The audit cannot be formally concluded and an audit certificate issued as we are considering the Authority's response to an electors objection relating to 2015/16 and we have not issued our opinion on the Pension Fund Annual Report. Until we have completed these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.
Audit fee	Our fee for 2017/18 was £199,590 excluding VAT (£199,590 excluding VAT in 2016-17) and for the Pension Fund £21,000 excluding VAT (£21,000 excluding VAT in 2016-17). These were in line with the planned audit fees. Further details are contained in Appendix 2.
Exercising of audit powers	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.brent.gov.uk.

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External Audit Plan (January 2018)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Auditor's Report (July 2018)

The Auditor's Report included our audit opinion on the financial statements, including the pension fund accounts along with our VFM conclusion.

Annual Audit Letter (August 2018)

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.



Certification of Grants and Returns (February 2018)

This report summarised the outcome of our certification work on the Authority's 2016/17 grants and returns.

Report to Those Charged with Governance (July 2018)

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £199,590, which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is ongoing. The planned fee is £21,633 excluding VAT and final fee will be confirmed through our reporting on the outcome of that work in December 2018.

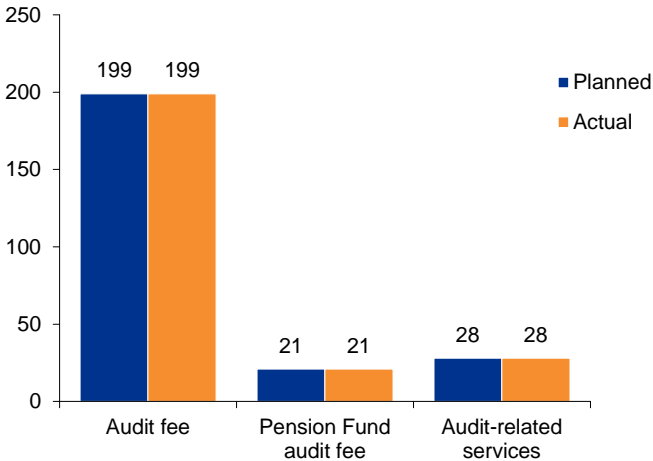
Other services

We have agreed fees of £6,500 for additional audit-related services for the certification of the Teachers Pension Return and the Pooling of Housing Capital Receipts Return, which are outside of Public Sector Audit Appointment's certification regime.

Other fees paid to KPMG during the year

In addition to the above fees for the year, the Authority paid KPMG £17,574 in respect of work completed on five objections relating to the 2015/16 audit year (this does not include fees in respect of ongoing work on the final objection relating to the Lender Only Borrowing Option (LOBO) loans). KPMG also audit the Authority's subsidiary company I4B Holdings Limited for which the audit fee is £24,000 and is being paid directly by the company.

External audit fees 2017/18 (£'000)





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	Audit and Standards Advisory Committee 17 October 2018
	Report from the Chief Finance Officer
2018/19 Mid-Year Treasury Report	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Three: <ul style="list-style-type: none"> • Prudential Indicators • Maturity Structure of Fixed Rate Borrowing • Investment Strategy Options
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Daniel Omisore Head of Finance Email: Daniel.omisore@brent.gov.uk Tel: 020 8937 3057

1.0 Purpose of the Report

1.1 This report updates Members on recent treasury activity.

2.0 Recommendation

2.1 The Committee is asked to note the 2018/19 mid-year Treasury report, which is to be forwarded to the Cabinet and Council.

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 report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
- 3.3 Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 3.4 In addition to reporting on risk management, the Code requires the Authority to report on any financial instruments entered into to manage treasury risks.

Economic Background

- 3.5 Growth in the UK economy recovered somewhat in Q2 following very low growth in Q1. The most recent estimate for UK GDP growth is 0.4% for Q2. This is the same as the Eurozone however US growth has been strong. Arlingclose have advised that the outlook for the UK economy remains challenging to predict following the vote to leave the European Union. Other risks include potential trade wars which will continue to cause significant volatility in financial markets.
- 3.6 Consumer Price Index (CPI) has increased since the previous update, to 2.7% in August mostly due to increases in transport fares and recreation and culture. Employment is currently at 75.5% of the working age population, marginally down on the quarter prior however the number of people in work increased through the year. Wages excluding bonuses grew by 2.9% therefore wages including inflation only showed a very slight increase.
- 3.7 Gilt yields have fluctuated in response to domestic and international events in the first half of the year. The movement in rates at which local authorities can borrow from the Public Works Loans Board (PWLB) on maturity loans is shown in the table below:

PWLB Rates

Period	Mar-18	Sep-18
1 year	1.7%	1.8%
5 year	2.1%	2.1%
10 year	2.4%	2.5%

- 3.8 The interest rate the Council receives on money market funds has risen since the previous report and 12 month maturities with local authorities have risen from 0.8% to 1.1%.

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 2018. The Council has applied for the Certainty Rate for the period November 2018 to 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, is in a position to consider alternatives, and will start to do so in order to finance the investment strategy. However, no new long term loans have needed to be raised so far this year as can be seen in the table below:

	Balance on 01/04/2018 £m	Debt repaid* £m	New Borrowing £m	Balance on 30/09/2018 £m
Short Term Borrowing	21	21	0	0
Long Term Borrowing	411	2.2	0	408
TOTAL BORROWING	432	2.2	0	408
Ave Rate of Long Term Borrowing %	4.82	2.58	0	4.83*

** £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 The use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing external debt and temporary investments. However this position will not be sustainable over the medium term and the Council will need to give careful consideration to its future capital programme and how this is financed. Borrowing options, including the potential to agree forward funding and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor, Arlingclose.
- 3.12 Affordability remains an important influence on the Council's borrowing strategy. Moreover, any borrowing undertaken ahead of need would need to be invested in the money markets at rates of interest significantly lower than the cost of borrowing and involve credit risk. If interest rates seemed likely to rise significantly in the short-term then this approach might need to be reviewed, however forward borrowing which is under consideration largely eliminates this risk. This is because it allows the Council to agree a sum in advance of need, at a fixed rate for delivery on a pre-determined future, thereby hedging against future interest rate exposure whilst avoiding a short term increase in costs, as interest payments do not commence until the loan starts.

- 3.13 The persistence of low interest rates means that it would be uneconomic to reschedule debt, because early retirement of the loan would incur a heavy penalty, to compensate the PWLB for having to lend the money on at lower rates. For example, the Council's most expensive loan is £3.05m at a rate of 8.875%, to repay it would cost £0.781m, a 26% premium on the value of the loan before the cost of re-financing. In short, the cost of re-financing our loans under the Government's approach means is not economical. This analysis might change if interest rates returned to historically normal levels.

Investment Activity

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

	Balance on 01/04/2018 £m	Investments Made £m	Investments Repaid £m	Balance on 30/09/2018 £m
Short Term Investments	140	579	594	125

- 3.15 There was a £15m downward movement in short-term investments. This is expected and mainly due to the significant capital investments being applied to new NAIL schemes, loans to I4B and investment in the HRA stock. This downward trend in investment balances is expected to continue in the coming years as the capital programme is progressed. YTD capital spend for 18-19 currently stands at £52m with the forecast for the full year £162m. 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 will not be sustainable over the medium to long term.
- 3.16 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. As reported to Cabinet in September 2018 the prediction is that the council will need to borrow towards the end of 2020, 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 the same meeting Cabinet endorsed an updated borrowing strategy that included a recommendation to commence negotiations to agree a forward funding loan of up to £40m. The council will also consider the advice of our Treasury management advisors, Arlingclose prior to any borrowing decision being made.
- 3.17 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19. New investments were made with the following classes of institutions:

- A- or above rated banks;
- AAA rated Money Market Funds;
- Other Local Authorities;
- UK Debt Management Office

A short summary of the investment products available to the council is provided in Appendix 3.

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

Budgeted Income And Outturn

- 3.20 The Council's external interest budget for the year is £23.3m, and for investment income is £1.4m. The Council is unlikely to achieve the income figure, but this will be compensated for by lower borrowing costs than budgeted. The average cash balances, representing the Council's reserves and working balances, were £137m during the period to 31 September 2018.
- 3.21 The UK Bank Rate increased to 0.75% from 0.50% on 02 August 2018. Following this decision short-term money market rates have increased in response however rates are very low compared to historic rates. This will lead to an increase on the return of the council's investment portfolio though this will be gradual because existing fixed rate investments will be held to maturity.

Icelandic Bank Investment Update

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

LOBOs (Lender Option Borrower Options)

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

Compliance

- 3.24 Officers confirm that they have complied with its Prudential Indicators for 2018/19, which were set in February 2018 as part of the Council's Treasury Management Strategy Statement (TMSS). Details can be found in Appendix 1.

Summary

- 3.25 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 2018/19. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4.0 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.

Report sign off:

Conrad Hall
Chief Finance Officer

Prudential Indicators

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2018/19 to 2020/21 are shown in the table below (excluding Private Finance Initiative schemes):

	31/03/2018 Final £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m	31/03/2021 Estimate £m
CFR	665	700	830	947

Usable Reserves

Estimates of the Council's level of Usable Reserves for 2018/19 to 2020/21 are as follows:

	31/03/2018 Final £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m	31/03/2021 Estimate £m
Usable Reserves	204	177	126	60

Prudential Indicator Compliance

Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Authorised Borrowing Limit. This is a statutory limit which should not be breached. The Council's Authorised Borrowing Limit was set at £900m for 2018/19. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2018/19 was set at £800m. The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary so far this year; borrowing at its peak was £432m.

Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposure

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

	Limits for 2018/19	Maximum during 2018/19
Upper Limit for Fixed Rate Exposure	100%	100%
Upper Limit for Variable Rate Exposure	40%	0%

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. A breakdown of the maturity structure of fixed rate borrowing is provided in Appendix 2.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing as at 30/09/18 £m	% Fixed Rate Borrowing as at 30/09/18	Compliance with Set Limits?
	%	%			
Under 12 months	40	0	24	6	Yes
12 months and within 24 months	20	0	36	9	Yes
24 months and within 5 years	20	0	43	11	Yes
5 years and within 10 years	60	0	5	1	Yes
10 years and above	100	0	300	73	Yes

Net Debt and the CFR

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

The Authority had no difficulty meeting this requirement so far in 2018/19, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Total principal sums invested for periods longer than 364 days

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

The limit for 2018/19 was set at £40m.

The Council's practice since the onset of the credit crunch in 2007 has generally been to keep investment maturities to a maximum of 12 months. At 30 September, the last maturity date in the deposits portfolio was 4 March 2019.

Credit Risk

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

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

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

The Council can confirm that all investments were made in line with a minimum long term credit rating of A- or equivalent, as set in the 2018/19 TMSS.

HRA Limit on Indebtedness

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

HRA Limit on Indebtedness	31/03/2018 Final £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m	31/03/2021 Estimate £m
HRA CFR	149	171	194	195
HRA Debt Cap (as prescribed by MHCLG)	199	199	199	199
Difference	50	28	5	4

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Maturity Structure of Fixed Rate Borrowing

Year	Actual Fixed Rate Borrowing as at 30/09/18 £m
2018/19	12
2019/20	41
2020/21	24
2021/22	15
2022/23	11
2023/24	1
2024/25	1
2025/26	1
2026/27	1
2027/28	1
2028/29	1
2029/30	1
2030/31	1
2031/32	1
2032/33	1
2034/35	19
2047/48	52
2049/50	5
2052/53	24
2053/54	12
2054/55	17
2055/56	54
2056/57	71
2057/58	29
2059/60	6
2068/69	5
TOTAL	408

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Investment strategy options

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.

Asset Classes (approx. return)	Cash (0.6%)	Bonds (2.5%)	Equities (4.1%)	Property (4.8%)
Income driven by	Short term interest rates	Medium term interest rates	Dividends / share prices	Rental income / vacancies
Key Risk(s)	Bank defaults	Company defaults	Company performance and perception of future performance	Property prices, least liquid asset class

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.

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 approximately 1.05% for a 1 year deposit with another UK local authority and 1.4% for a 2 year deposit.

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.

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

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.

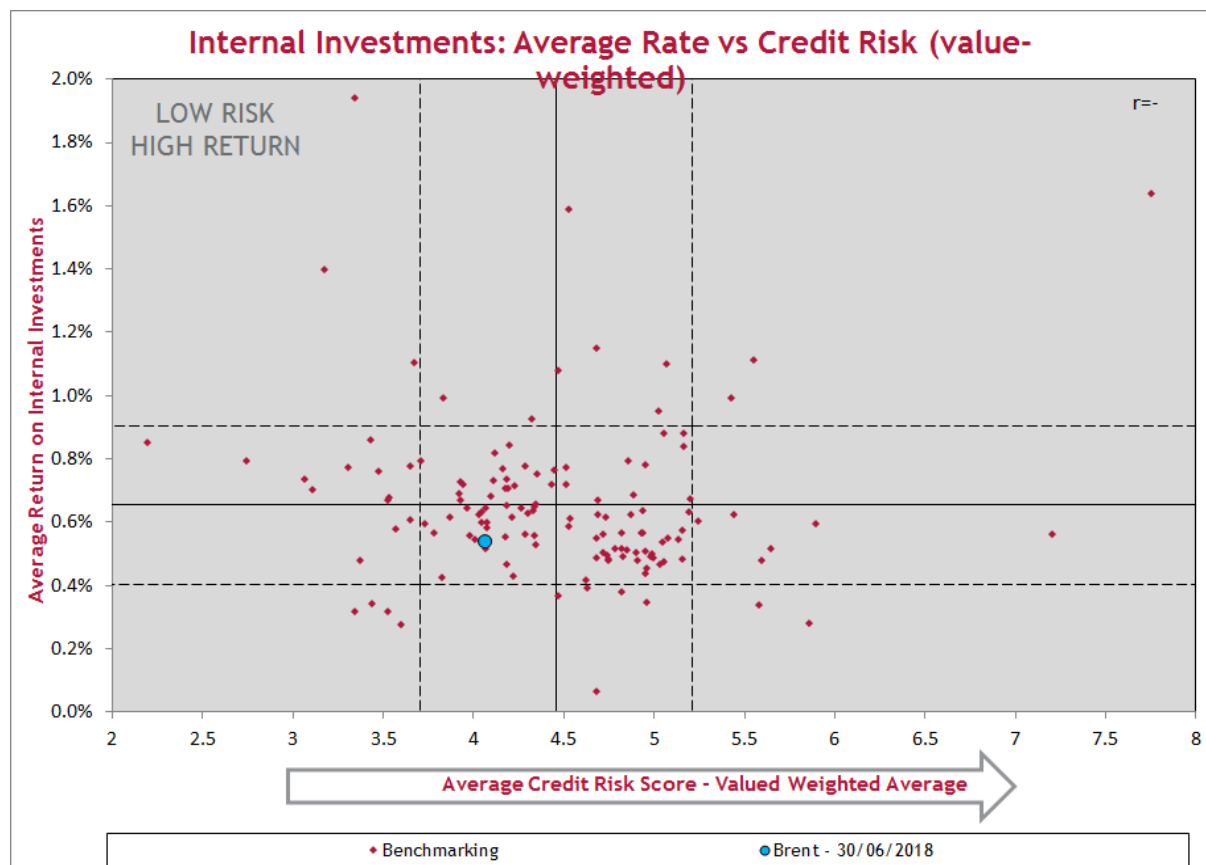
- **Credit risk** - the risk that a bank or other institution will not be able to pay back the money invested with it. For longer term investments, the council is more exposed to credit risk. Should a counterparty's credit worthiness change, the council may not be able to get all their money back or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

Changes to current TMS

The current investment strategy provides flexibility to invest cash for periods of up to 370 days however the council may also lend any amount to any UK local government body for up to 5 years. The minimum long term rating for counterparties is A- (or equivalent). The prudential indicators allow up to £40m to be invested for longer than 364 days.

Benchmarking to other councils

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, obtaining similar yields for much higher risk levels.



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Audit Progress Report and Sector Update

Brent Council

Year ending 31 March 2019

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17 October 2018



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Introduction



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This paper provides the Audit and Standards Advisory 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 Advisory 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. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.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.

Progress at October

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we are discussing the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2019.

We will also deliver the audits of the Teachers' Pensions and Pooling of Housing Capital Receipts returns in line with national deadlines.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with your Chief Finance Officer in September as part of our quarterly 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 also met with your Strategic Directors in October to discuss the Council's strategic priorities and plans.

Events

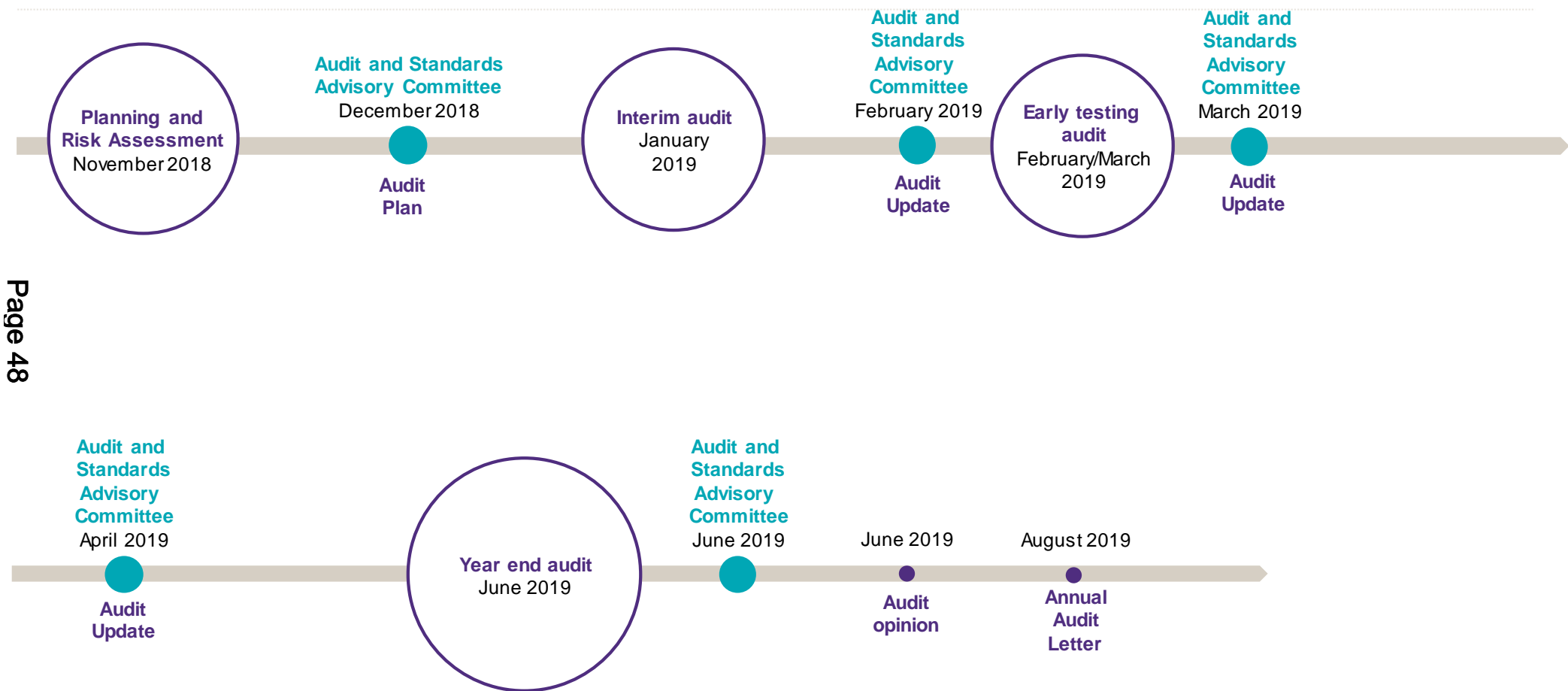
We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is the 2018/19 Chief Accountants workshop with dates in January and February.

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
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Standards Advisory Committee setting out our proposed approach in order to give an opinion on the Council's 2018/19 financial statements.	December 2018	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the June Audit and Standards Advisory Committee.	June 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Planned 2018/19 Audit Timeline



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Engagement with Those Charged With Governance

Effective engagement between auditors and Those Charged With Governance

Effective two-way communication between auditors and Those Charged With Governance is a key area of your governance arrangements and for us in discharging our audit responsibilities.

We will attend each Audit and Standards Advisory Committee meeting to actively engage and contribute to discussion. We were unable to attend the July 2018 meeting which focussed on your 2017/18 accounts but are fully committed to attend all your meetings pertaining to the 2018/19 audit year and beyond.

We will also continue to support Members if training needs are identified, similar to the training session we delivered to Members in June on how we meet our professional standards and add value.

Council's Reserves and Balances

The following table sets out your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs. The Council maintains a strong overall reserves position that improved from 2016/17 by 25% (from £422.8m to £531.7m), of which £222.8m are total general fund reserves and earmarked reserves excluding schools' reserves. This analysis demonstrates that the Council is maintaining levels much above those of its peers but it is recognised that of the £365m total usable reserves and capital receipts reserve, £193.4m relates to S106 developer contributions, Community Infrastructure Levy, and capital receipts/grants, which was unusually high for 2017/18.

With growing reductions in central government funding and increases in demand for core services it is important the Council maintains appropriate budgetary controls to maintain reserves at a suitable level.

Brent Council – Reserves: Key performance indicators

Measure	London Borough of Brent	Average for London Boroughs	Ranking relative to other London Boroughs
Total non-earmarked general fund reserves as at 31 March 2018 (£m)	12,300	19,672	21 / 32
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	222,800	102,647	2 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	238,700	112,902	2 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	365,000	253,589	6 / 32
General fund and earmarked general fund reserves as a percentage of gross service revenue	22.1%	13.5%	2 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	33.8%	28.9%	12 / 32

Sector Update

Local government finances are at a tipping point. 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
1

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 and standards advisory 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

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

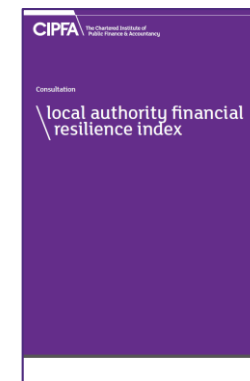
Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

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The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper
Consultation



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

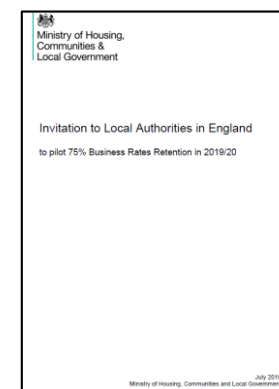
The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.

Business Rates pilots 2019/20



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

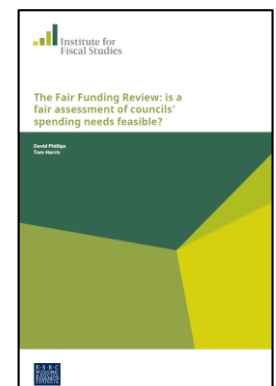
The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

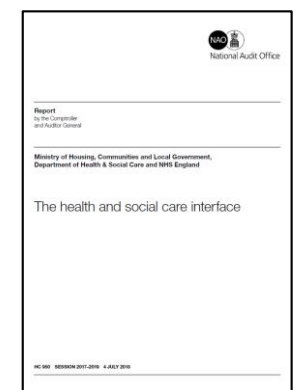
Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

- To download the app visit your app store and search 'Vibrant Economy'
- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
 - Explore the app and take the quiz
 - Go to the Vibrant Ideas section to share your picture and story or idea



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>


Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

 Brent	Audit and Standards Advisory Committee 17 October 2018
	Report from the Chief Finance Officer
Internal Audit Progress Report for the period April – August 2018	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Two: <ul style="list-style-type: none"> Completed Audits from the 2018/19 Audit Plan Follow Up Reviews
Background Papers:	None.
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: michael.bradley@brent.gov.uk Tel: 0208 937 6526

1.0 Purpose of the Report

- 1.1 This report provides an update on progress against the Internal Audit Plan for the period 1 April 2018 to 31 August 2018.

2.0 Recommendation

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

3.0 Internal Audit Performance

- 3.1 During this period Internal Audit have:
- completed nine audit reviews and advisory pieces of work;
 - Completed 19 follow up reviews;
 - Commenced a new program of school audits with 14 schools included in this year's plan; and
 - Completed grant claim certifications for the Troubled Families Programme.
- 3.2 The team has also been able to react to urgent management requests when required. Further details are set out below.
- 3.3 The recruitment of new staff has brought increased stability and performance. The final auditor recruitment is expected to be completed by the end of quarter three. The team continues to be supplemented by a contracted resource from PricewaterhouseCoopers (PwC).

Audit Work Undertaken

- 3.4 The Internal Audit Plan for 2018/19 initially comprised 63 audits excluding school reviews, follow ups and advisory work.
- 3.5 Nine audits have been completed and a further nine are nearing completion. Resources have been allocated to allow full completion of the plan. For each audit where controls have been analysed and a report agreed with management, an assurance opinion is given. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below.
- 3.6 Six of the completed audits were given a 'Reasonable' assurance opinion. The remaining three were advisory work which did not require an audit opinion. Details of the audits and the key findings are set out in Appendix 1.

Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
No	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

- 3.7 The following table shows the nine audits currently in progress, a number of which the draft report has been issued to management for review.

Audit	Status
Income Management	Draft Report Issued
Licensing	Draft Report Issued
Budget Monitoring	Draft Report Issued
Digital Strategy	Draft Report Issued
Unaccompanied Asylum Seeking Children	Report being drafted
IT Device provision	Fieldwork in progress
Data Security	Fieldwork in progress

Trading Standards	Fieldwork in progress
I4B Financial Model Review	Fieldwork in progress

Follow up Reviews

- 3.8 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, 19 follow up reviews have been completed. A further 12 are currently in progress. Details of the completed follow up reviews are set out in Appendix 2.
- 3.9 Of the 19 completed, five have had their assurance level raised following completion of the agreed recommendations. This included three (of four) reviews which initially received 'limited' assurance ratings which have now moved to 'reasonable' as a result of management action to implement recommendations. The area which remained at 'limited' was the Schools Expansion Programme audit where a number of recommendations relating to project management were partially implemented.
- 3.10 A total of 155 management actions have been reviewed:

Implemented	Partly Implemented	Not Implemented	No Longer Relevant
115	20	4	16

- 3.11 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

- 3.12 The new program of school audits is underway with the first review completed. This review produced a 'no assurance' outcome. There were six high risk findings and one medium risk finding. The high risk findings related to Governance, Financial Management, Purchasing and Expenditure, Asset Management, HR and Payroll, and Income.
- 3.13 School audits focus on governance, financial processes and the accompanying back office resources. A follow up review will be carried out in due course.
- 3.14 The remaining school reviews are scheduled to take place over the next seven months. 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. A summary memo will be issued at year end setting out any common issues identified from the school audits including any lessons to be learnt or best practice to be circulated.

Customer Satisfaction

- 3.15 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.
- 3.16 A total of two questionnaires have returned. Both responses were positive with either a satisfied or very satisfied opinion. However, this is a very low return rate and unless more questionnaires are returned in future only limited reliance can be placed on the result. Audit will continue to encourage clients to feedback on their experience of the service.

Quality Assurance and Improvement Programme

- 3.17 The Public Sector Internal Audit Standards state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This is due during 2018/19. The newly appointed Internal Audit Manager will undertake this review in September/October 2018. (There is a pan-London peer review mechanism administered by Croydon Council which was unable to provide an independently selected reviewer. The option of using the Internal Audit Manager, (new recruit and a qualified, experienced audit manager) was accepted by the Audit and Advisory Committee as a suitable alternative.

4.0 Financial Implications

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

5.0 Legal Implications

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

6.0 Equality Implications

- 6.1 None.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 None.

Report sign off:

CONRAD HALL
Chief Finance Officer

Completed Audits from 2018/19 Audit Plan

Audit Title	Scope	Assurance Rating and Key Findings
Insurance	Insurance Claim Process Training Monitoring of Insurance Claims Policies and Procedures	Reasonable One high risk finding: <ul style="list-style-type: none"> Contract with supplier. Three medium risk findings related to: <ul style="list-style-type: none"> Policies and procedures; management information and reporting, and actions from a previous claims handling review.
Property Payments	Policy and Procedures Approval Process Documentation Management Information	An assurance opinion was not given as the audit was a management request to review the circumstances around a specific duplicate payment which had been recovered with no losses suffered. Issues raised related to <ul style="list-style-type: none"> Procedure Documents; Approvals by senior officers; Access to systems; Planning of property purchase; Reconciliations; Checklists prior to a payment being authorised, and Case Management software.
Gifts and Hospitality/Declarations of Interest	Policies and Procedures Record Keeping Systems Communication and Training Management Information, Reporting and Publication	Reasonable One high risk finding: <ul style="list-style-type: none"> Completion of the Declarations of Interest form. Four medium risk findings related to: <ul style="list-style-type: none"> policies and procedures; process to complete a new Dol form every two years and evidence of authorisation, and induction training. The issues had all been previously raised in a 2015/16 Internal Audit.

Risk Based Verification Benefits	Policy and Procedures Quality Checks Risk Profiling Management Information	Reasonable One high and three medium issues were reported relating to: <ul style="list-style-type: none"> • GDPR Compliance; • RBV evidence checks; • Assessment of use of RBV, and • New high risk claims.
Libraries Stock Control	Procedures Security and Storage Arrangements Stock takes, records and disposals Acquisitions and levels of stock Management Information	Reasonable There was one accepted medium finding (for two others in relation to disposals and issue of library cards, the risk was accepted by management) relating to stock policy and procedure documents.
Use of Social Media/RIPA	Surveillance Management Oversight Procedures, Protocols and Procedures	Reasonable One medium finding relating to procedures for supervising the use of social media and the internet.
Accounts Payable	This review focused on the control weaknesses identified as a result of an ongoing fraud investigation involving a member of the Accounts payable (AP) team. There are wider internal audit reviews on the 2018/19 plan looking at key financial systems in more depth.	An assurance opinion was not given as this was a short review focusing on control weaknesses identified as a result of result of a fraud, the confidential investigation into which is ongoing. There were three high risk findings and nine medium risk findings. The three high risk findings related to: <ul style="list-style-type: none"> • Refunds; • Cheque Payments, and • Approval for payments on Oracle. (This finding also arose in the review that followed a duplicate payment on a property acquisition).
Building Control	Work Allocation Cross Boundary Work Work performed in Brent by other Local Authorities Application Processing and Inspections Budget Monitoring and Forecasting Performance Management	Reasonable One medium risk finding related to management of inspection workloads.
Barham Park Accounts	n/a	Review of the annual Barham Park Accounts.

Follow Up Reviews

Audit Title	Management Actions				Assurance Rating		Audit Closed or Re-Follow Up Due
	Implemented	Partly Implemented	Not implemented	No Longer relevant	Original	Revised	
Homelessness	4	2 (1)*	0	1	Limited	Reasonable	1/10/2018
Public Health - Service User Development	6	0	0	1	Reasonable	Reasonable	Audit Closed
Gas Servicing	2	1 (1)	2	0	Reasonable	Reasonable	30/11/2018
NRPF	4	0	0	0	Reasonable	Substantial	Audit Closed
Public Health - Payments to GPs	5	0	0	1	Reasonable	Reasonable	Audit Closed
Schools Expansion Programme	6	10 (1)	0	0	Limited	Limited	31/12/2018
Income Generation	3	0	0	13	Reasonable	Reasonable	Audit Closed
S106/Community Infrastructure Levy	7	0	0	0	Reasonable	Substantial	Audit Closed
Grants to Voluntary Organisations	4	0	0	0	Reasonable	Reasonable	Audit Closed
Performance Management	2	3	0	0	Reasonable	Reasonable	31/12/2018
Rent Arrears Management	15	0	0	0	Reasonable	Substantial	Audit Closed
S117 Mental Health Act	22	0	0	0	Reasonable	Reasonable	Audit Closed
Leasehold Management and Service charge	3	0	0	0	Reasonable	Reasonable	Audit Closed
IT Governance and Third Party Mgt.	2	1	2	0	Reasonable	Reasonable	31/12/2018
Appointeeship/Deputyship	15	0	0	0	n/a	n/a	Audit Closed
Temporary Accommodation	4	1	0	0	Reasonable	Reasonable	10/10/2018
PCI DSS	3	1	0	0	Reasonable	Reasonable	31/10/2018
HR - Contract Administration	2	1	0	0	Limited	Reasonable	Audit Closed
Transport Shared Services	6	0	0	0	Limited	Reasonable	Audit Closed

***Numbers in brackets show where ‘high’ risk actions have not yet been fully implemented. Details of the partially implemented high priority recommendations are listed overleaf.**

Homelessness

The high priority finding related to evidence of approval on homelessness cases. The follow-up review identified that while the majority of the agreed action had been implemented, there was scope to improve evidence of management checking in the new CRM system


Gas Servicing

The high priority finding related to sample checking of remedial works by the in-house gas inspector.

While checks are now carried out on high risk remedial actions, the new CRM system will allow the service to maintain records of all checks performed on remedial actions.

Schools Expansion Programme

The high priority findings related to the benefits realisation element of the programme. Three of six elements of this recommendation had been implemented. The remaining three were in progress and relate to: benefits profiles for all live projects; a benefits realisation plan, and roles and responsibilities.

	Audit and Standards Advisory Committee 17 October 2018
	Report from the Chief Finance Officer
Counter Fraud Quarterly Progress Report 2018/19	

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

1.0 Purpose of the Report

- 1.1 This report provides an update on the counter fraud work undertaken in the period 1 April 2018 to 30 September 2018 (Quarters 1 and 2).

2.0 Recommendation

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

3.0 Detail

- 3.1 There have been 17 new referrals received during Q1 and Q2, which is an increase compared with the same period during the previous year (14 cases). This includes whistleblowing referrals and a range of case types that includes various financial, staff conduct and procedural irregularities. Our proactive work and our review of the National Fraud Initiative (NFI) data-matching 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 overleaf sets out key figures in this area.

Table A – Internal Fraud

Internal Fraud	2018/19 Q2**	2018/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open Cases b/f	6	11	11	16	22
New Referrals	9	8	17	35	28
Closed Cases	5	13	18	40	34
Open Cases c/f	10	6	10	11	16
Fraud/Irregularity Identified*	1	5	6	10	12
Dismissal	1	0	1	1	1
Resignation	0	2	2	1	2
Warning	0	1	1	2	1
Other Outcome (see below)	0	2	2	7	8

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

** Q2 figures are up to and including 20th September 2018 when report was drafted. Full figures will be reflected in next progress report.

- 3.2 There has been an increase in internal referrals logged during 2017/18 compared with the previous year and this trend has continued into 2018/19. The increase in this referral type has coincided with a request that all whistleblowing events are referred to the Audit and Investigations Service. In addition, there has been an increased presence on the council's website that enables members of the public to report all fraud as well as fraud awareness sessions being delivered across the council.
- 3.3 There were two cases that resulted in resignations during the investigation. One related to immigration status and the other concerned recruitment irregularities. Both of these cases were recorded in Q1 following the conclusion of the investigations.
- 3.4 In Q1 an employee was given a final warning following a disciplinary investigation relating to a benefit fraud investigation conducted by the Department of Work and Pensions (DWP). A further two cases relating to conflicts of interest issues were referred for management action.
- 3.5 During Q2, a fraud investigation was initiated against an employee and their partner concerning financial irregularities which led to their dismissal in August. This is an on-going criminal investigation. The value of the fraud is in excess of £280,000 although prompt management action and investigative work has meant there will be no financial loss to the council. Internal Audit work on the control issues relating to this event are summarised in the internal audit quarterly report.

4.0 Tenancy and Social Housing Fraud

- 4.1 The recovery of social housing properties by fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority

fraud risk area for the Council. The Audit Commission has previously estimated that the average national value of each recovered tenancy is £18,000* per property. A more meaningful value for Brent is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). These are notional values and for consistency in reporting, we used the lesser value up to 2017/18. For 2018/19 we will apply the higher value to housing fraud cases. The counter-fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

Housing Fraud	18/19 Q2***	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	45	28	28	82	121
New Referrals	40	43	83	130	332
Closed cases	36	26	62	184	371
Open cases c/f	49	45	49	28	82
Fraud Found	5	6	11	42	52
Recovered Properties	5	5	10	38	44
Applications Refused	0	1	1	1	0
Property Size Reduced	0	0	0	2	4
Right To Buy	0	1	1	1	4
Value of properties recovered*	465,000	558,000	£1,023,000	£738,000	£864,000
Value of Right to Buy Discount Prevented**	NIL	103,900	£103,900	£103,900	£311,700
Cases with Legal for Possession/Prosecution	12	N/A	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.

*** Q2 figures are up to and including 20th September 2018 when report was drafted. Full figures will be reflected in next progress report.

- 4.2 A total of 11 housing recoveries, with a notional value of £1,023,000, were recorded as a result of fraud / irregularity up to Q2. The recoveries are comparable to the same period as last year (although the notional value is higher due to the revised value placed upon each recovery).
- 4.3 The total referrals in 2017/18 have been lower compared with the previous two years and this has continued through to Q2. As previously reported, the fraud detection rate of closed cases has remained constant.

The fraud detection rate against closed cases since 2015/16 is as follows:

- 2015/16 = 23.25% (314 cases closed, detected fraud in 73 cases);
- 2016/17 = 14.02% (371 cases closed, detected fraud in 52 cases);
- 2017/18 = 22.83% (184 cases closed, detected fraud in 42 cases);
- 2018/19 (to Q2) = 19.35% (62 cases closed, detected fraud in 12 cases).

- 4.4 A notable case is the recent recovery of a council property in April 2018, where the tenant had used fraudulent ID from the outset (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 with sentencing scheduled in October 2018.

5.0 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	18/19 Q2*	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	12	13	13	14	57
New Referrals	39	20	59	88	161
Closed Cases	33	21	54	89	204
Open cases c/f	18	12	18	13	14
Fraud / Irregularity *	7	5	12	12	22
Prosecution	0	1	1	1	2
Warning / Caution	1	0	1	2	6
Overpayment/Saving	7	5	12	11	7

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

* Q2 figures are up to and including 20th September 2018 when this report was drafted. Full figures will be reflected in next progress report.

- 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 has so far identified 17 fraudulent Brent applications. The main subject of the investigation has been identified, arrested and appeared in court on 26 June 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. 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 cost Brent approximately £350 per pass to administer. The defendant has pleaded not-guilty and we are awaiting trial.

- 5.3 One notable case was a prosecution in Q1 resulting from a previous Blue Badge enforcement operation in January 2018. The defendant pleaded guilty and was fined £300. They were also ordered to pay costs of £470 and a Victim Surcharge of £30.
- 5.4 In Q2, a formal caution was issued against another person who had admitted to misusing a Blue Badge as an alternative to prosecution.

6.0 Counter Fraud Savings Summary

- 6.1 The table below summarises the main savings (both notional and actual) identified at the conclusion of investigations. Housing Tenancy remains the highest area of savings for the team. The table does not reflect all positive outcomes such as some NFI data matching reviews which are reported separately (below) and certain internal fraud cases where it can be difficult to accurately apportion a value. It should also be noted that whilst the team no longer has the remit to directly investigate Housing Benefit and Council Tax Benefit, it will take appropriate action to ensure these benefits are corrected where fraud/irregularity is identified.

Savings Summary:	Yr to date	Q4 2018/19*	Q3 2018/19*	Q2 2018/19*	Q1 2018/19*	Yr 2016/17
Client Funds	0.00			0.00	0.00	63,158.02
Council Tax Benefit	0.00			0.00	0.00	2,311.31
Council Tax Support	0.00			0.00	801.03	4,617.66
Council Tax SPD	801.03			0.00	0.00	1,277.03
Direct Payments	0.00			0.00	0.00	34,646.90
Housing Application	93,000.00			0.00	93,000.00	18,000.00
Housing Tenancy	930,000.00			465,000.00	108,000.00	720,000.00
Insurance Claims	0.00			0.00	0.00	2,670.00
Rent Allowance (HB)	0.00			0.00	0.00	14,655.17
Rent Rebate (HB)	0.00			0.00	0.00	26,461.07
Pension Fraud/Irregularity	0.00			0.00	0.00	7,154.30
Right To Buy Fraud	103,900.00			0.00	103,900.00	103,900.00
Blue Badge	2,075.00			0.00	2,075.00	1,000.00
Section 17 Payments NRPF	0.00			0.00	0.00	0.00
Freedom Pass	0.00			0.00	0.00	90,000.00
Caution – Voluntary Contrib.	0.00			0.00	0.00	250.00
Year to Date Total:	1,129,776.03			465,000.00	664,776.03	1,090,601.46

* Quarterly savings breakdown does not include live cases where values have been recorded e.g. prosecution case.
 Figures are up to 20th September 2018.

7.0 Proactive Fraud Activity

- 7.1 **Council Tax** proactives are in progress, which involve a review of those receiving Single Persons Discount and Student Discount. Early indications show the review of Single Persons Discount is the more effective of the two with over 30% of sampled cases due to have the discount terminated. An update on the outcomes of both exercises will be provided in the next progress report. The Student Discount review is proving the less effective and will most likely be discontinued.

7.2 **Blue Badge (Q1)** – the Counter Fraud team led on a successful Blue Badge proactive exercise in June which resulted in good publicity. On this occasion, it included officers from the Enviro-crime and Trading Standards enforcement teams along with Police officers from Brent's Partnership Tasking Team and representation from the ASB and Crime teams. The operation demonstrated excellent collaborative team work and had multiple successes, which are summarised below;

- **Counter Fraud team and Parking Enforcement**
 - 62 Blue Badges checked
 - 11 PCNs issued (six for Blue Badge related offences)
 - One vehicles towed for fraudulently displaying a cancelled Blue Badge.
- **Enviro-Crime Enforcement**
 - Six Fixed Penalty Notices for littering.
 - Found two separate fly tips.
- **Trading Standards**
 - Visited five shops to discuss preventing under age sales and where relevant, voluntary non sales of corrosive substances. Two of the shops signed up for their responsible trader scheme. Two shop owner contacts obtained to follow up and an audit carried out on an existing member of the scheme.
 - Conducted an undercover Test Purchase for tyre safety testing purposes.

7.3. The **National Fraud Initiative** (NFI) 2016/17 data matching exercise has been reviewed following data submission in October 2016 and matches generated since January 2017. There were a total of 20,463 data matches (8,036 were recommended) across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have either been reviewed or are under review.

To 20 September 2018, the overall summary of NFI work is as follows:

- Matches processed/reviewed = 1,134 (up to May 2018 was 1,099)
- Investigating = 26 (up to May 2018 was 24)
- Cleared = 782 (up to May 2018 was 747)
- Fraud/Error identified = 319/3 (no change since May 2018)
- Overpayment/Savings identified = £168,177.44 (no change since May 2018).

Notable results from NFI reports reviewed is as follows;

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors were found resulting in live badges being cancelled. Notional saving of £152,000 recorded (£500 for each badge cancelled);
- Brent Pensions to deceased persons; 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered, and
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.

Preparations are now under way for the new data submissions for the NFI 2018/19 exercise, after which data matches will be generated from January 2019.

The Cabinet Office has recently produced its NFI 2018 report for the most recent exercise and has announced; *“We are delighted to announce that due to the hard work of all of the 1,200 public and private sector organisations that participate in the National Fraud Initiative, over £300 million fraud and error has been prevented or detected in the period April 2016 to March 2018.”*

- 7.4 **Government Counter Fraud Profession – 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. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard.

Fraud Awareness Strategy 2018/19

- 7.5 A refresh of the main Anti-Fraud policies was approved by the Audit Advisory Committee on 5th December 2017. This has enabled the Investigations team to promote these policies (including the Whistleblowing policy) throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team’s profile. This is currently in progress.
- 7.6 Engagement across the council has already commenced as set out in this report and also includes ongoing liaison with all service areas, using social media to report key messages and fraud awareness sessions. A further session has been arranged with the School Business Managers forum in October. We aim to review our strategy after Q2.

8.0 Financial Implications

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

9.0 Legal Implications

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

10.0 Equality Implications

- 10.1 None.

11.0 Consultation with Ward Members and Stakeholders

- 11.1 None.

Report sign off:

CONRAD HALL
Chief Finance Officer

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Topic / Date	26-Jul-18	17-Oct-18	11-Dec-18	05-Feb-19	20-Mar-19	24-Apr-19
Internal Audit & Investigations						
Internal Audit Annual Report, including Annual Head of Audit Opinion	X					
Review Internal Audit Charter				X		
Internal Audit and Counter Fraud Progress Reports		X		X		X
Draft Internal Audit and Investigations Annual Plan					X	
Preparation for Peer Review (self-assessment; plan; peer review)			X	X		X
External Audit						
External Audit progress report	X	X	X	X	X	X
External Audit plan				X		
External Audit - Certification of grants and returns (as and when)					X	
Statement of Accounts & External Auditor's Report	X					
External Auditor Annual Audit Letter			X			
Financial Reporting						
Treasury Management Mid-term Report		X				
Treasury Management Strategy & Annual Investment Strategy				X		
Draft Statement of Accounts	X					
Minimum Revenue Policy (MRP) 2018/19 Report (Including an introduction to the revised MHCLG guidance on Investments & MRP)*	X					
Treasury Management Outturn Report	X					
Governance						
To review the performance and management of I4B Holdings Ltd and First Wave Housing	X					
Review of the use of RIPA Powers					X	
To consider issues that had been raised under the Planning Code of Conduct			X			
Receive and agree the Annual Governance Statement	X				X	
Risk Management						
Risk Management Annual Review, including Risk Management Strategy			X			
Strategic Risk Register			X			
Emergency Preparedness	X					
Audit Committee Effectiveness						
Review the Committee's Forward Plan	X	X	X	X	X	X
Quarterly private meetings between the Chair of Audit Advisory Committee and the Head of Audit and Risk Management						
Determine and Deliver Training Requirements for Audit Committee Members as Required					X	
Standards Matters						
Quarterly update on gifts and hospitality	X		X		X	X
Annual Standards Report					X	

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