



**MINUTES OF THE AUDIT ADVISORY COMMITTEE**  
**Held on Tuesday 20 March 2018 at 6.30 pm**

**PRESENT:** Mr Ewart (Chair), Mr Sullivan (Independent Member, via Skype), and Councillors A Choudry (Vice-Chair), Long, Nerva and Krupa Sheth

**Also Present:** Councillor S Choudhary

Everyone introduced themselves. The Committee welcomed Tim Semken and Huda Al-Sadi who had joined Brent Council as Principal Auditors.

**1. Apologies for Absence and Clarification of Alternate Members**

Apologies for absence were received from Councillors Davidson and Perrin (with Councillor Long substituting).

KPMG, the Council's external auditor, was represented by Mr Steve Lucas as Mr Andy Sayers had sent his apologies.

Mr Sullivan participated in the meeting remotely due to illness.

**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.

**3. Deputations**

There were no deputations.

**4. Order of Business**

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

**5. Update on the operation of i4B Holdings Ltd**

Martin Smith (Chair of i4B Holdings Limited) introduced the report which provided an update on the performance, future plans and governance arrangements of the Council's wholly owned company – i4B Holdings Ltd. Mr Smith noted that the paper reflected the discussion that had taken place at the Audit Advisory Committee meeting in September 2017 and its emphasis was on the evolution of the company and its control environment.

The Committee heard that the first i4B property had been let in November 2017 and, at present, approximately 50 families were living in i4B accommodation, with another 20 properties being available. As of 1 March 2018, 170 of the 251 properties purchased and in conveyancing were located in Brent or Greater London which represented a higher proportion (61%) than originally planned (40%). Mr Smith noted

that time between identifying a property and letting it had decreased, but it remained longer than assumed in the initial modelling. He informed Members that on 12 February 2018 Brent Council's Cabinet had approved i4B's second Business Plan which continued the current programme and included a number of options which were under consideration by the Board of the Company as potential future opportunities (page 60 of the Agenda pack). Furthermore, an accountability regime had been put in place and it provided a framework for the Council, the Cabinet and the Board to hold the company to account. In parallel, monthly client meetings had been set up between i4B and the Council to monitor the service level agreement (SLA) performance and to allow the company to monitor Council performance against the SLA.

In relation to risk management, Mr Smith noted that very few of the individual risks included in the company's risk register (pages 61-63 of the Agenda pack) would be fatal to i4B's operation. However, if a number of risks occurred together, this could be detrimental. Referring to internal audits, Mr Smith highlighted that the company would routinely share final reports with the Council. He said that the Board was satisfied with the results of the first two internal audits – Governance, Risk and Financial Management; and Benefits Realisation, Management Information and Reporting, both of which had achieved 'reasonable assurance'. The recommendations of these audits would be applied to the other housing company which was wholly owned by the Council – First Wave Housing. A report on First Wave Housing, including agreed audit arrangements, would be presented at the next meeting of the Audit Advisory Committee. Michael Bradley (the Council's Head of Audit and Investigations) informed the Committee that work on the audit of Fraud Risk Management would begin in April 2018.

Members of the Committee welcomed the report and asked questions that related to benchmarking the company's performance against similar companies set up by other local authorities. Mr Smith said that while there was not a structured way to compare various entities systematically, Board members had been communicating with their counterparts informally. The principal risk associated with such companies was related to the ability to deliver affordable housing, while maintaining financial viability. In relation to the speed of mobilisation, Members heard that i4B was at the top of the range. Referring to risk scores, Mr Smith pointed out that it would be correct to assume that relative scores were more meaningful than absolute ones as scores could depend on specific circumstances for each borough. He acknowledged that while the company had a framework for assessing risk, it had to be more systematic in documenting risk, making it clear if a risk had been accepted or if it would not be tolerated. The Chair noted that it could be necessary to examine some of the risks in detail.

In relation to landlord licensing, the effect of the Welfare Reform on rent collection rates and acquisition costs, the Committee heard that properties let by i4B were subject to landlord licensing both within Brent and in other boroughs. The rent collection rate had been one of the key risks included in the risk register and the reason for this had been the Welfare Reform. The i4B business model was sensitive to rent collection as small fluctuations in the rate would have a significant impact on the company's operations. Mr Smith explained that it was too early to provide performance statistics, however, First Wave Housing, which had lower quality properties let under similar tenancy agreements, achieved a rate of 98% which demonstrated that the operating model is capable of working well. The average

purchase price was slightly above target (£356,180 compared to £345,000) which could be explained by the increase in house prices and the higher numbers of purchased properties in the Borough than expected. Furthermore, there had been a discussion whether the company had to focus on buying properties in good condition at a higher cost or whether it could spend less on properties which required refurbishment.

A Councillor who was in attendance at the meeting noted that prices in some areas had dropped, while prices in London would not increase at the same rate as they used to. They enquired whether it could be possible to purchase properties in areas in which prices were expected to increase so risk could be minimised. Mr Smith explained that i4B applied a number of criteria, including quality and standard of accommodation and transport links, before deciding whether a property would be suitable for Brent residents. He commented that two criteria which had been applied when purchasing the first properties of the company's portfolio were achieving a yield as close to 5% as possible and geographical proximity to Brent. However, the further away a property was from the Borough, the higher the yield was so it was important to achieve a balance between these two factors. As the company put greater emphasis on acquiring properties in the Borough, these criteria had been adjusted. In addition, the company had worked with property consultants to identify places that could offer the best long-term opportunity in terms of property prices. i4B did not deviate from its purchasing criteria and would not acquire property simply to meet its acquisition target.

Commenting on the company's cash flow position, Mr Smith said that the i4B's financial model was based on significant acquisition costs during the first two years of operation. The Council's Cabinet had agreed to provide the company with the cash to enable the purchases in the initial stages of operation and if the assumptions made in relation to rental income, cost of acquisition and inflation remained the same, the company was expected to have a positive balance in Year 3 or Year 4 as the properties that had been let would generate long-term revenue. Carolyn Downs (the Council's Chief Executive) said that she shared the concern about the company's cash flow, but she remained optimistic about First Wave Housing's ability to generate profits.

Ms Downs commented on a recent shareholder meeting between the Council and the Board where the latter had raised some of the challenges they experienced, including the length of time properties had spent in conveyancing. Ms Downs noted that a number of measures had been put in place to address the issue and streamline the process. Conveyancing had been brought back in house and time spent on this step of the process had been brought back to the original timescale. Addressing Members' concerns in relation to the average time of 90 days for property refurbishment and letting from the point of purchase, Ms Downs said that a dedicated officer would be recruited to take ownership and ensure that properties get through to the system in a timely manner. In relation to the standard of repairs, Ms Downs highlighted that the specification would be adjusted to match the standard applied to the Council's social housing stock. A Member of the Committee asked whether prospective tenants and local social enterprises were engaged in refurbishment as this could benefit both residents and businesses. Ms Downs acknowledged that this was a good idea that would facilitate the letting process, and might appropriately be considered by the Housing Scrutiny Committee, and said that while i4B had not been in position to engage residents, local companies could be approached to refurbish

properties that did not require extensive work. Phil Porter (a former Board member and the Council's Strategic Director of Community Wellbeing) added that social value was an important part of the contracts i4B entered into – for example, one of the large contractors working for i4B had recently launched a programme that supported local residents for six months, maximising their skills and enabling them to get into work.

In response to Members' questions about the i4B Second Business Plan, Conrad Hall (the Council's Chief Finance Officer) explained that the Plan was a document which outlined what the company could and could not do and covered potential future activities. Moreover, some actions required approval by Brent's Cabinet as the shareholder retained decision-making over certain issues. It was noted that the ideas included in the Business Plan were subject to additional work and some of them may not materialise.

Members of the Committee enquired if i4B had considered properties which potential for expansion as the Borough experienced a shortage of large houses and whether adjustments for people with disabilities and their families had been made. Mr Smith said that the former had not been a specific criteria considered by the company as the initial aim had been to mobilise i4B in a timely manner, but it could be taken into account. In relation to the latter, specific adaptations to the people who would live in the properties had been made.

The Chair noted that 15 days of audit work had been allocated to looking at the i4B Audit Plans from the Council's perspective as a shareholder. He encouraged Members to inform Mr Bradley of any specific items they thought could be included in the audit work on i4B.

The Independent Member commented that the relationship between the Council and i4B had been very complicated – members of the i4B Board included a Councillor, a Council's Strategic Director and a Council's Director; the Council was a shareholder in the company; it supplied services to the company under a SLA; and the purpose of the company was to meet the Council's objectives related to reducing homelessness and providing affordable housing. These arrangements created a risk that the company and the Council could be treated as one by the law. Referring to i4B's Risk Analysis and Risk Register (pages 87-91 of the Agenda pack), the Independent Member said there were 11 risks which were more likely to occur than not, with eight of them likely to have serious consequences for the operation of the company. They commented that it was not specified which body would deliver the risk mitigation and how risks affected the Council – for instance, a risk register from the Council's perspective had not been presented to the Committee and information how the Council was monitoring its exposure to risk had not been provided. Furthermore, the mitigation of some risks required additional investment by the Local Authority in the company, but it was not clear whether the Council had the necessary resources. This view was accepted by Ms Downs who acknowledged the need for greater clarity and suggested that a report from the Council's perspective to be presented at the next meeting of the Audit Advisory Committee.

**RESOLVED** that:

- (i) The Contents of the Update on the operation of i4B Holdings Ltd report, be noted;
- (ii) The Committee noted:

- The update on Company performance;
  - i4B's future plans as set out in its second Business Plan;
  - Key risks and mitigations;
  - i4B's completed internal audit reports and future audit arrangements;
  - The update on First Wave Housing provided in section 8 of the report;
- (iii) A report on the operation of i4B Holdings Ltd from the Council's perspective be provided at the next meeting of the Committee;
- (iv) A report on First Wave Housing, including agreed audit arrangements, be presented at the next meeting of the Committee; and
- (v) Members be encouraged to inform Mr Bradley of any specific items they thought could be included in the audit work on i4B.

## 6. **Minutes of the Previous Meeting**

It was **RESOLVED** that the minutes of the previous meeting, held on 10 January 2018, be approved as an accurate record.

## 7. **Matters Arising**

It was noted that Emergency Preparedness would be discussed at the next meeting of the Audit Advisory Committee in July 2018.

## 8. **External Audit Progress Report**

Steve Lucas (Senior Manager, KPMG - External Audit) introduced the report which provided the Committee with external audit updates since January 2018 and the work planned before the next meeting in July 2018. He noted that KPMG had received information from the Council regarding the objection relating to the Lender Option Borrower Option (LOBO) loans. The Local Authority had 14 LOBOs, some of which were dating back to 2002 or 2003 so it was understandable that some information related to decisions that had been made more than 15 years ago could be missing. However, Mr Lucas assured the Committee that KPMG had sufficient information to work on the objection.

Mr Lucas said that KPMG had completed their interim audit visit and had met with the Chief Executive, the Strategic Director of Resources and the Chief Finance Officer to discuss strategic issues and any impact on KPMG's value for money and financial statements work. Furthermore, emerging issues had been discussed with officers to agree accounting treatments in advance.

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

9. **External Audit Report on grants and returns 2016/17**

Steve Lucas (Senior Manager, KPMG - External Audit) presented the paper which summarised the results of the work KPMG had carried out on the Council's 2016/17 grant claims and returns. Under the Public Sector Audit Appointments arrangements KPMG had certified one claim relating to the Housing Benefit (HB) Subsidy. In addition, reports had been issued on the Teachers' Pension Return and the Pooling of Housing Capital Receipts Return. Mr Lucas directed Members' attention to page 23 of the Agenda pack which contained detailed information about the Housing Benefit Claim. He emphasised that a number of errors in the calculation of HB had been identified and the accuracy of recording self-employed income had not improved since recommendations had been made last year – 73 errors had been found in 124 cases, with multiple errors in some of them. While in some cases, these errors had led to under- and overpayments, in others the amount of HB had not changed. Nevertheless, if the error rate increased significantly, this would have a negative financial impact on the Council.

Althea Loderick (the Council's Strategic Director of Resources) said that management comments had been provided on page 26 of the Agenda pack and emphasised that the Service had been taking the matter seriously. She said that she had spoken to the Heads of Service and they had acknowledged the previous findings. A new approach to self-assessment forms had been adopted and staff had been trained accordingly. Furthermore, quality control assurance tests completed in December 2017 and January 2018 on new self-employed claims had shown that the error rate had dropped to 6%. The Independent Member commented that management seemed to be addressing the problem by trying to reduce the human error factor. They noted that the error rate was not as high as it seemed once it is the put into context and the total amount of transactions was taken into account.

Ms Loderick added that Brent Customer Services had looked into options to standardise approaches and one of the improvement measures identified included reducing the types of entries, i.e. forms had been standardised to ensure that information was not missed which had helped to improve efficiency and reduce errors.

**RESOLVED that:**

- (i) The contents of the External Audit Report on grants and returns 2016/17, be noted; and
- (ii) A written update on the implementation of the action plan created by the Housing Benefit Team to address the findings of the report be provided at the next meeting of the Committee.

10. **Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017**

Debra Norman (the Council's Director of Legal and HR Services) introduced the report which explained the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of the Regulation of Investigatory Powers Act 2000 (RIPA). Members heard that RIPA provided a framework which authorised

Council officers to use surveillance techniques to investigate cases and gather evidence that could be used for prosecutions. Ms Norman said that the Council's most recent inspection in November 2016 judged the Local Authority's RIPA policy as "excellent" and no formal recommendations had been made. However, two main issues had been raised - first, the need for the Council to review its Closed Circuit Television (CCTV) protocol so that before the Police and other law enforcement bodies were allowed to use its public CCTV systems for directed surveillance purposes, the Council was reassured that a RIPA authorisation had been obtained. Second, the Council had been advised to raise Council-wide awareness about the use of social media and the internet to obtain information about others and the likely privacy and RIPA implications. Both of these suggestions had been implemented and were kept under review.

Ms Norman noted that the RIPA powers had not been used since 2016/17 when a single authorisation had been granted. This was due to a change in regulations and the fact that no case had required the Council to undertake surveillance that required a RIPA authorisation. In relation to a question whether an investigation of fly-tipping would require a RIPA authorisation, Ms Norman explained that a RIPA authorisation was only required for covert surveillance and was only a possibility in investigations of offences punishable with at least six months imprisonment.

The Independent Member commented that it would be beneficial for the Committee to continue receiving annual updates, containing information about any incidents that had required the use of a RIPA authorisation and cases where the Local Authority had not met the regulatory expectations.

**RESOLVED** that:

- (i) The contents of the Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017 report, be noted;
- (ii) An update on the use of the RIPA Powers in 2018 be provided to the meeting of the Committee in 12 months.

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

Michael Bradley (the Council's Head of Audit & Investigations) presented the report which informed Members of the progress on implementing the Action Plan that had been produced after the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). Mr Bradley said that one of the outstanding actions was to complete an external assessment of the Internal Audit service against the PSIAS. Members heard that the process was independently coordinated by the London Borough of Croydon. However, due to the low numbers of peer reviewers available, Brent was still awaiting a reviewer authority to be allocated. Conrad Hall (the Council's Chief Finance Officer) emphasised that the arrangement ensured the independence of the peer review, hence it was a preferred option to approaching boroughs directly.

In relation to Action number 6 (Induction Training), Mr Bradley said that two new Principal Auditors had started in March 2018 and an induction plan had been in place.

**RESOLVED** that:

- (i) The contents of the Public Sector Internal Audit Standards (PSIAS) Action Plan, be noted; and
- (ii) An update on the preparations for external assessment of the Internal Audit service against the PSIAS be provided at the next meeting of the Committee.

## 12. **Internal Audit & Counter Fraud Progress Report (Quarter 3)**

Michael Bradley (the Council's Head of Audit & Investigations) provided an update against the Annual Audit Plan for 2017/18. Mr Bradley directed the Committee's attention to page 150 of the Agenda pack which contained information about the 16 audits from the 2017/18 Plan which had been completed to draft or final stage. He noted that Table 2 (page 151 of the Agenda pack) contained a list of audits that had been deferred or removed, along with the reason for this. He acknowledged that some audits had been removed due to temporary lack of capacity and at management request and reminded the Committee that the Plan was an evolving document reflecting the current needs and priorities of the organisation. Furthermore, five audits from 2016/17 had been followed up since the last meeting of the Committee.

Members enquired about the extent of audit and counter fraud work at schools and the reasons why audits related to education had been removed from the Audit Plan. Mr Bradley explained the work would not include academies. He noted that he did not consider School Place Sufficiency to be an area of high risk and its removal from the Plan had been agreed with the relevant Operational Director and could be reversed if necessary. Conrad Hall (the Council's Chief Finance Officer) added that the Local Authority did not have the power to audit academies which had their own internal auditors. This led to a discussion about responsibility in the event of a failure of an academy and Mr Hall said that children would not be without a school place as the funding came from the same source - the Department for Education (DfE), irrespective of the provision. Therefore, DfE would pass the funding to the Local Authority which, on its turn, would transfer it to the School. Another consequence of a potential failure would be to distinguish the Council's obligations to carry out assessment of needs and to ensure that there was sufficiency of places. As the Special Education Needs and Disabilities (SEND) provision was concerned, officers noted that the risk to Brent to ensure that children with SEND could be educated in the schools which currently existed could be explored in the future.

In relation to fraud, Mr Bradley said that there had been 12 new referrals received during the last quarter and a total of 26 referrals had been made since the beginning of the financial year. This included protected whistleblowing disclosures and a range of case types. There had been four cases where fraud / irregularity that had been identified involving discrepancies with payroll, irregular bank card transactions and a breach of information security. Mr Bradley directed Members' attention to Table 6 (page 155 of the Agenda pack) which provided information about internal fraud since 2015/16.

Responding to questions about Tenancy and Social Housing Fraud, Mr Bradley said that there could be a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption which had been caused by a

service restructure. However, Mr Bradley pointed out that the quality of referrals had improved and spoke about a case where a Council tenant's Right to Buy application had been stopped with an actual discount saving of £103,900. He referred Members to the table on page 161 of the Agenda pack which provided a summary of savings in the year to date and showed that other types of fraud, such as tenancy fraud and insurance claims, were significant as well.

Members heard that a new approach to Blue Badge fraud had been taken, with quarterly events taking place. The Investigations Team led on a successful Blue Badge proactive exercise, carried out in January 2018 in collaboration with partners such as the Enviro-crime and Private Housing enforcement teams and the Police. The operation had been successful and its key highlights were listed on pages 162 and 163 of the Agenda pack.

The Chair noted that the limited assurance Asset Management report had been dealt with and encouraged Mr Bradley to report back to the Committee if he was not satisfied with the response he had received.

**RESOLVED** that Internal Audit & Counter Fraud Progress Report (Quarter 3), be noted.

### 13. **Draft 2018/19 Internal Audit Plan**

Michael Bradley (the Council's Head of Audit & Investigations) presented the paper which set out the draft Internal Plan for 2018/19 and the basis on which the Plan had been prepared. He reminded Members that all local authorities were required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003. Mr Bradley said that Councillors had been encouraged to contribute to the Plan and make suggestions for themes to be added.

As suggested by the Chair, the Committee reviewed the draft Plan page by page and noted that the total number of days allocated was 885, which having in mind that the capacity of the Service was to provide 840 days of audit work, meant that the Plan had been oversubscribed by 45 days.

The Chair encouraged Members to refer any items related to i4B Holdings Ltd and First Wave Hosing to Mr Bradley.

**RESOLVED that:**

- (i) The contents of the Draft 2018/19 Internal Audit Annual Plan, be noted; and
- (ii) The contents of the Draft 2018/19 Internal Audit Annual Plan be approved as set out in Appendix 1 to the cover report.

14. **Dates of Committee meetings in 2018/19**

Conrad Hall (the Council's Chief Finance Officer) said that training for prospective Members of the Audit and the Audit Advisory Committees would be organised following the Annual Council Meeting in May 2018. In addition, a dedicated Member Learning and Development Session on the Council's accounts would be organised prior to their formal approval by the Audit Committee in July 2018.

Mr Hall noted that Grant Thornton had been appointed as the Council's new external auditor. The appointment would come into force on 1 April 2018 and it would cover all transactions after that date. KPMG would remain Brent's external auditor until work on the 2017/18 accounts, including any potential objections to them, had been completed.

The Chair informed Members that he had met with the Partner and the Senior Manager at Grant Thornton and they would be attending the next meeting of the Committee.

**RESOLVED** that the proposed dates for meetings of the Audit Advisory Committee be noted, subject to approval at the Annual Council Meeting on 14 May 2018.

15. **Audit Advisory Committee Forward Plan**

The Chair encouraged Members to notify the Head of Audit and Investigation and the Chief Finance Officer if they wanted to propose an item to be added to the Forward Plan or the agenda for a specific meeting. A Member commented that it would be beneficial if the Committee could consider examining areas where the Local Authority had overall, but not operational responsibility for the delivery of services.

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

16. **Any Other Urgent Business**

None.

The Chair expressed his gratitude to Elected Members and officers for supporting the work of the Committee throughout the 2017/18 Municipal Year.

The meeting was declared closed at 8.24 pm

DAVID EWART  
Chair