



## 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 arise.

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 (NDR) 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