



## **MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE** **Wednesday 11 March 2020 at 6.00 pm**

**PRESENT:** David Ewart (Chair), Councillor A Choudry (Vice-Chair) and Councillors Donnelly-Jackson, Long and Nerva

Independent Advisor: Vineeta Manchanda

Also Present: Councillor McLennan (Deputy Leader & Cabinet Member for Resources) & Nigel Shock (Independent Person).

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

The following apologies for absence were received:

- Councillors Hassan and Naheerathan
- Dr Rob Cawley, Karen McArthur & Margaret Bruce (Independent co-opted Members)

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

None.

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

None.

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

**RESOLVED** that the minutes of the Audit and Standards Advisory Committee held on 20 January 2020 be approved as an accurate record.

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

The following issues were raised in relation to the minutes from the meeting on 20 January 2020:

#### **5.1 Internal Audit Quarterly Update & Progress Report (Min 9)**

It was confirmed that the update requested by members on the risk identified in relation to bank account reconciliations had been provided with work ongoing around the production of the final accounts.

#### **5.2 Emergency Planning Resilience – Peer Review (Min 11)**

Carolyn Downs (as Chief Executive) took the opportunity to provide the Committee with an update on the emergency planning Gold arrangements

being stood up in relation to Covid 19. The Committee noted that the initial focus in terms of emergency planning had been in co-ordinating the health and social care response and also in relation to the adult social care and care home sector, with the Council's Business Continuity Plans also ready to be implemented, as required. In commenting on the update, the need was highlighted to ensure provision within sheltered housing schemes was considered alongside that within the care home sector. A detailed update had been provided for Cabinet along with a briefing to all Members. Further briefings and communications would continue to be provided on a regular basis as the situation developed.

Having noted the update provided, the Committee thanked officers for their efforts in the response to date.

### **5.3 Treasury Management Strategy 2020/21 (Min.16)**

NOTED the update provided by Minesh Patel (Director of Finance) on a number of recent announcements by the Government and Bank of England in relation to the cost of borrowing and business support (in the context of the Covid 19 outbreak) which would impact on the Council's Treasury Management Strategy. The potential financial impact of Covid 19 was currently subject to a high-level review, with further briefings to be provided for members as the situation developed.

## **6. Draft Internal Audit and Investigations Annual Plan**

The Committee received a report from Michael Bradley (Head of Internal Audit and Investigations) which set out the draft Internal Audit Plan for 2020/21, and provided the basis on which the plan had been prepared.

The Committee noted that development of the Plan had been based on an assessment of departmental and corporate risks and had been designed to provide assurance on the adequacy of the Council's governance, risk management and internal control framework. In addition, the report had also provided details on the planned allocation of investigation resources. Whilst the budget for the contracted element of the Internal Audit service had been reduced by £100k for 2020/21, reducing the number of audit day's available from 1070 to 920, provision had still been made for:

- Provision of assurance on high-risk areas (including major financial systems) via a risk-based auditing approach (78%);
- Schools audit coverage via 10 establishment visits (7%)
- Follow up reviews to monitor implementation of audit recommendations (7%); and
- An element of contingency to enable the service to provide ad hoc advice and to respond to management requests for support (8%)

Although noting members concerns at the reduction in audit days available and need to ensure any impact on delivery of the Plan, especially in relation to the identification and assurance on high level risks, continued to be monitored, the committee were advised that officers remained confident the resources available would allow the continued provision of effective and meaningful assurance via the Plan.

In addition to the Annual Audit Plan, the report also detailed the Council's Counter Fraud Plan 2020/21, which set out how the resources of the Investigation and Counter Fraud team would be targeted, focussed around the Council's anti-fraud policies. Whilst noting the more generic nature of work undertaken and split between reactive and proactive activity, the committee welcomed the specific focus outlined around fraud awareness activity and training.

David Ewart (Chair) highlighted the importance of the Plan and invited comments and feedback from the Committee on its content. The committee noted the breakdown of proposed activity between the cross cutting and departmental focussed reviews with the following issues highlighted in relation to the items identified within the Plan:

- Audit 1 (Contract Management) – Having noted the intention to include a cross cutting review in relation to contract management it was suggested that specific concerns highlighted in relation to the performance of the garden waste contract could be included as part of the same review.
- Audit 46 (Gifts & Hospitality) – Members welcomed the inclusion of a review focussed around the process for registering and recording gifts and hospitality;
- Comments were also sought from Grant Thornton (External Auditors) on the draft Audit Plan who supported what they felt to be the comprehensive nature of the risk based approach on which it had been based.

As no further issues were raised, David Ewart (Chair) thanked officers for the update and it was **RESOLVED** to approve the content of the 2020/21 Internal Audit Plan (as set out in Appendix 1 of the report).

## 7. External Audit Progress Report and Sector Update

Sophia Brown (Senior Audit Manager -Grant Thornton) introduced the report providing an update on the progress in delivering Grant Thornton's responsibilities as the Council's external auditors. It also included a summary of emerging national issues and developments.

The following key issues were noted in relation to the update provided:

- The progress as of February 2020 in relation to the Financial Statements and Value for Money audits, with a further visit scheduled for later in March. The results of the interim audit work had been detailed on page 7 of the report and included a focus on internal audit, entry level controls, walkthrough testing and journal entry controls. At this stage no material weaknesses had been identified which were likely to adversely impact on the audit approach or on the Council's financial statements;
- The summary of the audit deliverables, as detailed on page 6 of the report along with the sector updates provided. These included an update on the implementation of International Financial Report Standard (IFRS) 16 on Leases and how this would impact on the 2019/20 financial statements, transitional audit and the Council's Accounting Policies.

Having noted the progress outlined, the Chair thanked the external auditors for their report and it was **RESOLVED** that the Committee note the content of the report.

## 8. External Audit Plan

Sophia Brown (Senior Audit Manager, Grant Thornton) introduced the report which set out the planned scope and timing of the statutory audit of Brent Council for those charged with governance.

In terms of the approach outlined, the Committee noted:

- The key matters identified as impacting on Grant Thornton's audit approach of the Authority and Pension Fund, which included the wider economy and political uncertainty; the improved level of financial reporting introduced by the Financial Reporting Council (FRC), the implementation of IFRS 16 (leases) and the impact of the Good Governance proposals recently published by the Scheme Advisory Board (SAB) in relation to the Pension Fund;
- The following significant risks identified as requiring consideration, which were the same as previous years and included – management of override controls; valuation of land and buildings; valuation of net pension fund liability and also specifically in relation to the Pension Fund the valuation of Level 3 investments;
- The level of financial statement and Pension Fund materiality determined by Grant Thornton, as detailed in sections 1 and 7 of the report, which the Committee noted had reduced from the previous year;
- The significant risks identified for assessment as part of the audit on the arrangements to secure Value for Money which included, as detailed within section 8 of the report, the financial outturn and sustainability and also capital programme funding given the extensive nature of the programme and revised borrowing arrangements;
- The audit scope and risk assessment, as detailed within section 3 of the report;
- The timeline and requirements for the audit as detailed within section 9 of the report;
- The level of planned audit fees for 2019/20, as detailed within section 10 of the report; and
- The statement of Independence & non-audit services provided by Grant Thornton in accordance with the FRC Ethical Standard, as detailed within section 11 of the report.

Before moving on to consider the update provided, David Ewart (as Chair) advised member that he had been interviewed by the FRC as part of the previous year's audit process. Having noted the declaration, the following issues were raised by the Committee in response to the update on the External Audit Plan:

- Further details were sought on the overall governance arrangements and significance of the valuation of Level 3 investments as an area of risk to be assessed in relation to the Pension Fund audit. In response, Paul Dossett (Partner - Grant Thornton) advised that the focus on Level 3 Investments was as a result of the significant degree of judgement required to reach an appropriate valuation at year-end given the overall values involved. He

confirmed this was a common risk identified and not specific to the management of Brent's Pension Fund. In terms of the governance arrangements, the audit would be focussed around providing assurance in relation to not only the Level 3 investments but also the net liability of the Fund based on a routine approach that was also designed to recognise the challenging nature of the current environment within which investments were currently having to perform.

- In response to a query raised on the wider audit, Paul Dossett advised that no specific issues had been identified in terms of the approach to be adopted for Brent. The standard issues being raised across a range of authorities included the management of reserves and approach being adopted towards allocation of the Dedicated Schools Grant. Whilst the scale of the capital programme in Brent and borrowing arrangements had been identified for review within the VFM assessment, the Council's general accounting framework and governance arrangements were felt to be sound meaning the overall level of risk to be assessed was regarded as standard.

As no further issues were raised the Chair thanked Grant Thornton for their report and it was **RESOLVED** that the contents of the External Audit Plan be noted.

## 9. Accounting Policies

Ben Ainsworth (Head of Finance) introduced the report seeking the Committee's approval to the accounting policies it would be required to adopt governing production of the Statement of Accounts. The Accounting Policies, detailed in Appendix 1 of the report, had been based on the previous year's policies with some minor changes to cover new accounting standards and clarify existing policies. The Committee noted that the accounting policies could be changed only in specific circumstances, which had been outlined in paragraph 3.3 of the report with the main update relating to the additional disclosures now required under IFRS16 in relation to the accounting for leases (summarised within section 3.5 of the report).

Members in welcoming the report raised the following issues:

- Further details were sought on the potential impact, which the changes being introduced under IFRS 16 were likely to have in relation to the Statement of Accounts. Whilst the additional disclosures required were likely to impact on the Council's overall balance sheet, this was not expected to be to a material extent. Officers were in the process of undertaking a detailed review in order to include a disclosure of the estimated impact within the 2019/20 accounts. Paul Dossett advised that Grant Thornton had also been working with the Council to assess the approach adopted, with was regarded as a robust process.
- Members were also keen to seek a view on the approach being adopted in relation to the valuation of assets more generally in relation to the Statement of Accounts. By way of assurance, Paul Dossett advised that Grant Thornton had engaged their own Independent Valuer to review the Council's instruction process to their valuation expert along with the valuation, methodology and approach adopted in order to test the information, assumptions (including the current state of the property market), completeness and consistency of the

valuation process. The process followed in previous years had been assessed as robust and whilst the approach adopted by Grant Thornton had changed for the current year, this had been subject to ongoing and early discussion to ensure the final process was understood and agreed.

- Clarification was sought on the valuation process followed in relation to Council dwellings, which it was noted had been based on the beacon principle and use of their open market value adjusted to reflect their value as social housing. In response, Daniel Omisore (Deputy Director of Finance) confirmed that the valuation process would only include Council owned property valued according to the social housing discount. Any properties sold under Right to Buy would not be recognised. Paul Dossett advised that the external audit focus would remain on the data being used to identify the sample dwellings under the beacon principle and identification of non-council housing assets rather than on the level of social housing discount rate applied.

As no further issues were raised, it was **RESOLVED** that:

- (1) The contents of the Accounting Policies report, be noted; and
- (2) The Accounting Policies set out in Appendix A be approved as the basis for the production of the 2019/20 Statement of Accounts.

#### 10. **Forward Plan and agenda for the next meeting**

Members noted the update provided on the Committee's Forward Plan, which it was **RESOLVED** be amended to include an update on the External Audit Fee at the next meeting.

David Ewart (as Chair) also took the opportunity to place on record the Committee's formal thanks and best wishes to Kunwar Khan (Governance Officer) for his support over the last year, following his move to Surrey County Council.

#### 11. **Any other urgent business**

None.

The meeting closed at 6.41 pm

David Ewart  
Chair