

## **AUDIT SUB-COMMITTEE**

Minutes of the meeting held at 7.00 pm on 1 April 2015

### **Present:**

Councillor Neil Reddin FCCA (Chairman)  
Councillor Alan Collins (Vice-Chairman)  
Councillors Ian Dunn, Simon Fawthrop,  
William Huntington-Thresher and Keith Onslow

### **Also Present:**

Mark Bowen, Nigel Davies, Linda Pilkington and Luis Remedios

#### **24 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies were received from Cllr Stephen Wells; Councillor William Huntington Thresher attended as substitute. Apologies were also received from Councillor Nicholas Bennett.

#### **25 DECLARATIONS OF INTEREST**

Councillor Keith Onslow declared an interest as he worked for the Royal Borough of Greenwich on a part time basis.

#### **26 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 27th NOVEMBER 2014 ( EXCLUDING THOSE CONTAINING EXEMPT INFORMATION)**

**RESOLVED** that the minutes of the meeting (excluding exempt information) held on the 27<sup>th</sup> November 2014 be agreed.

#### **27 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

No questions were received.

#### **28 MATTERS OUTSTANDING FROM THE LAST MEETING**

Report CSD 15007

It was noted that the following matters could be regarded as implemented and closed:

- VfM Study by CIPFA

- Full Budget Monitoring
- Annual Audit Letter
- Learning Disabilities Follow Up

Other items were expanded upon in the relevant progress reports.

**RESOLVED that the Matters Arising report be noted.**

## **29 INTERNAL AUDIT PROGRESS REPORT**

Report CEO 1502

This report was written by the Head of Audit to inform Members of recent audit activity across the council, and to provide updates on matters arising.

The Committee were notified that the current collection rates of **Rent Arrears** for former temporary accommodation clients was only 4%; in other boroughs this figure was better at 15% but this included arrears for both former council tenants as well as temporary accommodation clients. It was also noted that the total arrears figure for B&B clients as at January 2015 stood at £2million. For these reasons the recommendation relating to rent arrears was to remain open.

There had previously been three priority one recommendations raised following an audit of **Purchase Cards**. It was noted that all recommendations had been implemented, and that £27k VAT had been reclaimed by officers.

With respect to **Creditors** it was noted that there was still a problem with retrospective orders. The Committee agreed therefore, that the priority one recommendation had not been implemented, and would have to be reviewed again in the audit plan for 2015/16.

With respect to **Looked After Children** there had previously been priority one recommendations dealing with overpayments, and also the timely completion of care plans. The Committee were informed that there was still a problem with overpayments, and that a foster carer that had previously been overpaid still owed LBB £21,565. This person had now been de-registered as a foster carer with Bromley. The situation concerning care plans was improving, but not sufficiently. Therefore both priority one recommendations would remain.

The Head of Audit outlined that in September 2013, there had been 16 recommendations proposed with respect to **Learning Disabilities**, 12 of which were priority one. Subsequent audit testing showed that all of the 12 P1 (priority one) recommendations had been implemented, and that because of this, Learning Disabilities had been removed from the register.

The Committee were reminded that the **Leaving Care (payments to clients)** audit had previously resulted in a nil assurance and 8 P1 recommendations. New procedures had been implemented, but it was too early to assess outcomes. A new audit was planned for the first quarter of 2015/16.

The Committee was provided with an update concerning the **Review of Family Placements**; the review previously gave rise to a nil assurance and eight P1 recommendations. It was noted that some progress had been made concerning the implementation of recommendations, and that there would be a follow up audit in 2015/16.

The Committee noted that in 2013/14, an audit of the Essential Car User Scheme had resulted in three P1 recommendations, and a limited assurance opinion. A recent committee decision had been made to continue the scheme for 2015/16 but phase it out thereafter. Therefore one of the three recommendations-i.e. to review the scheme had been implemented by this decision. A follow up audit of the other two recommendations would take place in 2015/16.

The Committee heard that in 2014/15, an audit took place of a **Primary School**. This had resulted in various recommendations, and one P1 issue. The School Finance Team had since confirmed that all bank reconciliations were up to date, and that there had been no further errors. The Committee were therefore of the view that the P1 recommendation had been implemented. Other recommendations would be reviewed in the 2015/16 follow up audit.

The Head of Audit informed the Committee that an audit review of the **Transition Team** had resulted in the only new P1 recommendation. This was related to under and overpayments of direct payments. The review had also given rise to six P2 recommendations, and all of the recommendations would be followed up in 2015/16.

Members were reminded that concerning **Waivers**, the Committee had previously taken a decision to only report on waivers under Contract Procedure Rules 3 and 13.1. An appendix was attached to the report that outlined waivers sought for the period of October 2014 to February 2015; no questions on the waivers were raised. Reference was made to the list of Internal Audit Reports that had been published on the web, and no questions were asked concerning these.

Members were reminded by the Head of Audit that the DWP had informed Bromley that the transfer of benefit fraud investigations to the **Single Fraud Integrated Service** would be operational from 1<sup>st</sup> July 2015, but that data migration would take place from the 1<sup>st</sup> June 2015, at which point all cases excluding those where there is a court summons prosecution pending would be transferred to the SFIS. Subsequent to that date, matters relating to **Housing Benefit** fraud would be dealt with by them. A new fraud partnership was to be developed with RBG for the investigation of other fraud related matters. This would require the employment of two full time members of staff that would be managed by RBG, and LBB had agreed a fee of £165K to cover costs.

The Committee were informed that a new group had been set up—the Corporate Risk Management Group—chaired by the Chief Executive; the CRMG would report to the Audit Sub Committee. It was further noted that the Risk Register was being updated as part of the Annual Governance Statement review. The Committee were interested to learn that a new online Risk Management course was being developed with Workforce Development.

**RESOLVED:**

- (1) that the internal audit progress report be noted**
- (2) that the waivers sought since November 2014 be noted**
- (3) that the Internal Audit Reports listed on the council website be noted**
- (4) that the formation of the SFIS (Single Fraud Integrated Service) be noted**
- (5) that the continuing achievements of the counter fraud partnership with the Royal Borough of Greenwich be noted, together with impending changes**
- (6) that the arrangements around risk management be noted**

**30 INTERNAL AUDIT ANNUAL AUDIT PLAN 2015/16**

Report CEO 1501

This report was presented to the Audit Sub Committee by the Head of Audit to inform Members of the Internal Audit Plan for 2015/16.

The Head of Audit explained to Members the purpose and methodology of the audit plan, and outlined who the Audit Plan coverage was largely aimed at. It was noted that the audit coverage for 2015/16 would decrease from 885 days to 830 days, and that this incorporated the buying in of 120 days from LB Wandsworth. It was also pointed out that the audit team would be carrying at least 0.6 FTE as a vacancy which equated to 110 days.

The Head of Audit expressed the view that because of issues arising with commissioned contracts, there would be more audit time allocated to the monitoring of contracts and commissioning. It was envisaged that there would be more detailed consideration of client side skills, and compliance with key contract requirements and monitoring of key performance indicators.

A Member stated that Councillors should be more involved in the scrutiny of contracts, as Members had a responsibility to the public, and that the failure to monitor contracts previously should be remembered.

A Member felt that just as pension fund managers were called to give account, so also Directors should be called before the Audit Sub Committee if required, to give account for contract monitoring failures. He expressed the view that KPI's should be more rigorously challenged, and that LBB should try and drive up standards.

Members looked at the Audit Plan Summary and the audit concerning the Care Act was discussed. It was noted that this was a specific request from management due to concerns of how the significant policy changes presented by the Care Act would impact on the service.

## **RESOLVED**

**(1) that the Internal Audit Annual Plan 2015/16 be noted**

**(2) that consideration be given to calling Directors to give account to the Audit Sub Committee for contract monitoring failures.**

## **31 EXTERNAL AUDIT GRANT CERTIFICATION REPORT**

Charles Martin from PwC attended to answer any questions that the Committee may have asked concerning the External Audit Grant Certification Report, and also regarding the External Audit Plan.

Mr Martin reported on technical errors concerning the overpayment of housing benefit that had been noted on the Management Action Plan for 2013/14. It was noted that these errors were not significant, and could be remedied through regular training of officers.

## **RESOLVED**

**(1) that the Annual Certification Report be noted**

**(2) that the Management Action Plan be noted and implemented.**

## **32 EXTERNAL AUDIT ANNUAL PLAN**

This report from PwC was to provide a review of the External Auditor's annual plan arrangements for 2014-15. The update on this report was provided by Charlie Martin; apologies were given for Katy Elstrup. The Committee were informed that Janet Dawson had left the organisation.

Mr Martin reminded the Committee that this was the last year that PwC would act as the External Auditors for LBB, but that they were committed to providing a high quality service to the end.

Mr Martin outlined the Audit approach taken by PwC that focussed on six areas:

- Client acceptance and Independence
- Deep business understanding
- Relevant risks
- Intelligent scoping
- Robust testing
- Meaningful conclusions

Mr Martin updated the Committee concerning the 2012/13 accounts—informing that they could still not be signed off due to objections concerning the parking contract and the related issuing of PCN's. It was noted that a meeting had been convened with the objector in December 2014, where supporting points had been raised. A meeting was due to take place with the objector in February, but this failed to take place, and so another one was planned for mid-April 2015.

A Member commented that it was good that the public raised objections, and that fault finding and scrutiny was good.

Mr Martin mentioned the three categories of relevant risks, and they were classified as Significant, Elevated and Normal. A Member made the observation that no value had been attached to risks, and that it would be helpful if risks could be quantified. Mr Martin stated that PwC were required by the International Standards on Auditing to consider possible management override of controls and the rebuttable risk of fraud in revenue recognition as significant risks to the integrity of the Authority's financial reporting. It was further stated that PwC would specifically review manual intervention in those areas, in addition to applying a level of unpredictability into the testing.

A Member asked how LBB could change criminal behaviour or error, and Mr Martin responded that PwC would assess controls and errors and report back to LBB with recommendations.

A Member commented that LBB maintained fraud registers, and that fraud is flagged at the front end. The Committee expressed concern as to how this could be maintained with current reductions in staffing. A Member wondered if PwC could use their experience to aid LBB with fraud control. Members considered that the Audit Committee arrangements for monitoring of fraud were adequate and this was conveyed to Mr Martin.

The Chairman referred to the fact that LBB was a commissioning authority, and asked if that would change the Audit approach. Mr Martin responded that one of the key issues was to be happy with the contract terms and conditions, and the associated accounting implications; it was important to look at contracts in depth. It was also important to consider value for money

implications, and long term financial plans. Plans needed to be identified to close budget gaps.

The Chairman enquired why the Crystal Palace Project had been classed as a risk. It was noted that this was because of the value of the estate, and the possibility that the exclusivity deal could have resulted in a devaluation of the property.

A Member commented that LBB were going through a period of change, and would therefore appreciate any relevant advice that it could gain with respect to possible mistakes that other councils had made, or regarding other pertinent court decisions. The Member enquired therefore, if PwC could advise on such matters, and provide early warnings regarding judicial issues and risk warnings. Mr Martin answered that they could provide LBB with advice concerning potential legal costs and that PwC did try and develop a wider awareness of the industry and take advice from other audit firms if appropriate.

Members noted the Total Audit Code Work Indicative Fee which was £201,948.

A Member expressed concern about the off-shoring of data, and expressed the view that this may be an issue that would worry local residents; the Member enquired what LBB policy was regarding this, and what information was going to service centres in India and Poland. Mr Martin assured the Committee that PwC would comply at all times with the seventh principle in Part 1 of the Schedule 1 to the 1998 Data Protection Act. Mr Martin stated that no personal information was going abroad, and that the data was redacted; he assured the Committee that Electoral Roll data was not being off-shored.

The Committee agreed that LBB policy should be checked to avoid possible penalties.

The Chairman thanked Mr Martin for his update and for answering the questions of the Committee.

**RESOLVED that:**

- (1) the External Audit Plan 2014-15 be noted**
- (2) LBB policy concerning the off-shoring of data be checked**
- (3) the proposed audit fees for 2014/15 were noted and agreed**
- (4) LBB fraud arrangements were noted.**

**33 QUESTIONS ON THE AUDIT SUB COMMITTEE BRIEFINGS**

No questions were received in respect of the Audit Sub Committee Briefings.

**34 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**

RESOLVED that the press and public be excluded during consideration of the items of business referred to in the following Minutes as it is likely in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public be present there would be disclosure to them of exempt information.

**35 INTERNAL AUDIT FRAUD & INVESTIGATION REPORT**

Report CEO 1503

This was a private report written by the Head of Audit.

The purpose of the report was to inform Members of recent Internal Audit activity on fraud and investigations across the council, and to provide updates on matters arising from previous meetings.

**36 EXEMPT MINUTES OF THE MEETING HELD ON THE 27th NOVEMBER 2014**

The exempt minutes of the meeting held on the 27<sup>th</sup> November 2014 were agreed.

The Meeting ended at 9.17 pm

Chairman