

## **AUDIT SUB-COMMITTEE**

Minutes of the meeting held at 7.00 pm on 4 April 2017

### **Present:**

Councillor Neil Reddin FCCA (Chairman)  
Councillor Alan Collins (Vice-Chairman)  
Councillors Ian Dunn, William Huntington-Thresher,  
Keith Onslow, Tom Philpott and Stephen Wells

### **Also Present:**

John Bosley, Dan Jones and Luis Remedios, David Hogan, Hannah Andrews, Peter Turner, Nigel Davies, Lesley Moore, Deepali Choudhary, James Newell, Barrie Cull and Linda Pilkington. Councillor Angela Wilkins.

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

Apologies were received from Councillor Peter Fortune. Councillor Tom Philpott acted as substitute.

#### **27 DECLARATIONS OF INTEREST**

Councillor Onslow declared that he received a pension from Zurich Insurance.

#### **28 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 29<sup>th</sup> NOVEMBER 2017-- EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

**RESOLVED** that the minutes of the Audit Sub-Committee meeting held on 29<sup>th</sup> November 2016, be agreed.

#### **29 QUESTIONS FROM COUNCILLORS OR MEMBERS OF THE PUBLIC**

No questions had been received.

#### **30 MATTERS ARISING FROM THE PREVIOUS MEETING- EXCLUDING EXEMPT INFORMATION**

There were no Part 1 matters outstanding from previous meetings.

#### **31 QUESTIONS ON THE PUBLISHED REDACTED REPORTS**

The Audit Sub-Committee Information Briefing comprised 12 reports:

- Review of St Paul's Cray Church of England Primary School Audit for 2016-2017
- Review of Housing Benefit Audit for 2016-2017
- Review of James Dixon Primary Audit for 2016-2017
- IT Services Contract Audit for 2016-2017
- Review of Glebe School Audit for 2016-2017
- Review of Waivers Audit for 2016-2017
- Review of Public Health Audit for 2016-2017; Substance Mis-Use.
- Review of Council Tax Audit for 2016-2017
- Follow up Audit –Section 106 Agreements for 2016-2017
- Review of Bromley Road Primary School Audit for 2016-2017
- Follow up Audit of Extra Care Housing for Norton Court—2016-2017
- Follow up Review of Libraries Audit for 2016-2017

No questions on the redacted reports had been received.

**RESOLVED: that the Information Briefings/Redacted Reports be noted.**

## **32            EXTERNAL AUDIT ANNUAL AUDIT PLAN 2016-17**

### **Report FSD17038**

The Audit Sub-Committee considered a report which provided a review of the External Auditor's plan arrangements for 2016-17.

The Sub-Committee noted that the audit fee of £119,076 had remained unchanged from 2015-16.

The Annual Plan set out Materiality limits. For the Authority, Materiality for planning purposes had been set at £10m, which equated to 1.58% of gross expenditure. For the Pension Fund, Materiality for planning purposes had been set at £7.4m, which equated to 1% of net assets. Any unadjusted misstatements of lesser amounts, to the extent that they were identified by the work of the External Auditors, were reported to the General Purposes and Licensing Committee.

The Local Audit and Accountability Act 2014, supported by the Code of Audit Practice, required auditors of local government bodies to be satisfied that the authority *'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'*. The value for money (VFM) approach was fundamentally unchanged from that adopted in 2015/16.

Hannah Andrews, Senior Manager, KPMG, attended the meeting and introduced the External Audit Plan 2016-17.

The Annual Audit Plan identified six significant risks. These were:

- Risk of fraud in revenue recognition
- Management override of controls
- Valuation of property, plant and equipment
- Valuation of pension assets, and liabilities
- Mears SPV (Special Purchase Vehicle)
- Pension Fund Investments

Ms Andrews highlighted that KPMG's risk assessment concerning LBB's arrangements to secure value for money had identified the following VFM significant risks:

- Findings from regulatory bodies
- Overspends in Children's Services
- Financial Resilience

Councillor Onslow asked if the three significant risks relating to VFM had been listed in any particular order of priority. Ms Andrews clarified that this was not the case, and that some work had already commenced. A report would be drafted for the GP&L Committee for its September meeting.

The Director of Finance stated that LBB had achieved a good VFM score overall for 2015/16, but that the VFM scores pertaining to the Youth Offending Service and Ofsted resulted in a qualification. A key consideration of the VFM score was the ability of the Council to balance its budget in the medium and longer term, given a budget gap of over £20m per annum by 2020/21. The key to resolving this was long term planning.

Councillor Dunn referenced the risk from regulatory bodies and asked how LBB could reverse the effect of the Ofsted report. Ms Andrews responded that the key issue now was for LBB to make positive responses to the Ofsted report.

Councillor Wells noted the reference to overspends in Children's Services. He felt that it was important that the relevant PDS Chairman be informed that this was occurring.

**RESOLVED: That**

- 1. the External Auditor's arrangements for the Audit Plan 2016-17 be noted;**
- 2. the Materiality limits set out in the Annual Plan be noted;**
- 3. the value for money arrangements set out in the Annual Plan be noted;**
- 4. the six significant risks identified in the Annual Plan be noted;**
- 5. the no increase in the audit fee be noted**
- 6. the PDS Chairman for Children's Services be notified of the overspend in Children's Services as outlined in the External Audit Plan**

### **33 ANNUAL INTERNAL AUDIT PLAN 2017-18**

#### **FSD17035**

The Sub-Committee considered a report setting out the Internal Audit Plan for 2017-18. The purpose of the Internal Audit Plan was to:

- Optimise the use of audit resources available, given that these were limited,
- Identify the key risks facing the Council in achieving its objectives and to determine the corresponding level of audit resources,
- Ensure effective audit coverage of high risk areas and a mechanism to provide Members, Governors, Head Teachers and senior managers with an overall opinion on the auditable areas and the overall control environment,
- Add value and support to senior management in providing effective control and identifying opportunities for improvement,
- Support the Council's nominated Section 151 Officer,
- Deliver an internal audit service which met the requirements of the Accounts & Audit Regulations 2015,
- Review Value for Money arrangements for designated audits in the plan where possible, as approved by Members of the Audit Sub-Committee,
- Allow flexibility to take on fraud and investigation work and participate in any proactive work,
- Assist External Audit in forming an opinion on the annual audit of the financial statements by placing reliance on the work of Internal Audit.

The Internal Audit Plan 2017-18 included the following audits of designated fundamental systems where key financial controls needed to be covered to allow an opinion on the overall control environment as part of the statutory Annual Governance Statement. These systems included debtors, creditors, payroll, NNDR, pensions, council tax, housing benefit and council tax reduction, treasury management, parking, cash and banking, main accounting system/revenue budgetary control, temporary accommodation and procurement.

The Head of Internal Audit introduced the report, highlighting that in comparison to the previous year, Internal Audit were proposing that the audit coverage for 2017/18 slightly decrease from 811 days to 800 days.

The Committee were informed that as in 2016-2017, forty days had been allocated to the auditing of commissioning and that discussions had already been undertaken with the Director of Commissioning to agree the best use of audit time. The Internal Audit Plan (IAP) had been risk assessed to ensure that all high risk auditable areas would be covered.

Members noted that the total planned coverage of 800 days included:

- core system audits;
- operational audits across the directorates;
- Bromley controlled schools;
- a total of 80 days for fraud and investigative work;
- 39 days for work in progress carried forward from 2016/17 split to the three directorates;
- provision for advice and support;

Seventy days contingency time was allocated to the three directorates to cover unplanned work such as management requests or further testing that may be required in the event of initial field work indicating major findings.

Members were reminded that a methodology had been agreed for Internal Audit to use in assessing VFM arrangements for designated areas covered in the Audit Plan. The basis of using the VFM methodology was agreed by members of the Committee, this involved the scoring of VFM arrangements in a range of 1-4; 1 equated to not met, and 4 equated to being fully met.

Councillor Wells enquired how much flexibility was allowed in the Audit Plan, and expressed concern that a disproportionate amount of time was being allocated to the Chief Executive's Department. The Head of Internal Audit assured that the plan was flexible.

Councillor Dunn was pleased to note section 3.10 of the report referring to Commissioning. The report noted that 40 days had been allocated in 2017-2018 to Commissioning. He asked if LBB had enough auditors, and expressed concern that Internal Audit may require extra resource. The Head of Internal Audit responded that he would like to be able to allocate additional resources to the monitoring of contracts.

The Director of Finance agreed that resources should be looked at to ensure that Internal Audit was not under resourced. It may be the case that if additional resources were allocated to Internal Audit, then the External Audit fee would reduce or an increase in external audit fees could be prevented. This was something that the new Head of Audit should review. The Chairman also expressed the view that extra resources were required for Internal Audit.

Councillor Wells stressed that care was required concerning the matter of accepting and recording 'gifts and hospitality', and that the Financial Regulations had to be followed when engaging with contractors. He also expressed concern that the Register of Staff Business Interests had still not been completed.

**RESOLVED that the report on the Annual Internal Audit Plan for 2017-2018 be noted, and that resources be looked at to ensure that Internal Audit would not be under resourced going forward.**

## **34 INTERNAL AUDIT PROGRESS REPORT**

### **Report FSD17036**

The Head of Audit introduced a report providing information surrounding recent audit activity across the Council and providing information on matters arising from previous meetings of the Audit Sub-Committee.

Further progress had been made on existing Priority One recommendations comprising Extra Care Housing (1 priority one recommendation made which had been implemented); Transition Team (1 priority one recommendation made which had been implemented); Learning Disabilities- (3 outstanding priority one recommendations not tested pending management report to Care Services PDS); Community Infrastructure Levy (2 priority one recommendations which were outstanding); Manorfields (2 priority one recommendations made which had been implemented); Document Storage and Retention (2 priority one recommendations which remained outstanding); Temporary Accommodation (3 priority one recommendations that would be followed up and reported to the Audit Sub-Committee in June 2017); NNDR (1 recommendation made that will be followed up and reported to the Audit Sub-Committee in June 2017).

A number of new Priority One recommendations had also been identified comprising Reablement Team; Waivers (2 Priority one recommendations both accepted by management for implementation); Leaving Care; Waste Services. Details of the recommendations were contained in Part 2 of the agenda.

Since the last meeting a further 12 redacted final reports had been published on the web, making 166 since publication first started.

From April 2016 to February 2017, 142 cases had been referred to the Single Fraud Investigation Service (SFIS). The Council had been advised that there had been no prosecutions on these referrals in 2016/17, however, 6 cases were awaiting decision by the Crown Prosecution Service (CPS). The DWP had advised that they had recommended 30 administrative penalties for authorisation by Bromley in 2016/17 based on its referrals. The DWP had stated that they completed 5 prosecutions in 2016/17 in respect of Bromley claimants that were not referred by the Council with a further 9 cases awaiting decision by the CPS not referred by Bromley. Members had previously agreed that given the absence of any agreement with the DWP for joint prosecutions, Officers should proceed to investigate and prosecute the Bromley fraud element of these cases, where appropriate, for council tax support if the overpayment exceeded £3,000, or below if there were some cases of blatant fraud e.g. submission of false documentation. This had already been implemented and there had been 4 successful prosecutions with others pending.

The Sub-Committee noted that following a recruitment process, Mr David Hogan, who was currently Head of Assurance for One Source, had been appointed Head of Audit.

At a previous meeting of the Sub-Committee, officers had set out the three ongoing objections to the accounts which had resulted in the accounts for 2012/13, 2013/14 and 2014/15 remaining open and costs escalating to a final total cost of £74,500. The work of the previous external auditors had now been concluded and the objections were now closed. The previous auditors had issued Bromley with revised annual audit letters for each of the three years that made reference to the objections and proposed recommendations. There had been no objections to the 2015/16 accounts audited by KPMG, the Council's current external auditors.

Councillor Huntington Thresher suggested that instead of contracts being waived, there may be scope for more reporting to Councillors prior to the waiver process being activated. The Director of Finance explained that LBB did work through a rigorous process in this regard and improvements to this arrangement were being implemented as reported to the Contracts Sub Committee.

The Committee noted section 3.67 of the report which provided a breakdown of the work of the External Auditors.

Members noted section 3.68 of the report which was the HMRC update. An audit would be undertaken to ensure that LBB were meeting new HMRC requirements on IR35, and that LBB were undertaking the proper checks to ensure that contractors were genuine limited companies, and were not claiming limited company status for tax avoidance purposes. The Director of Finance stressed the importance of undertaking the correct checks as under no circumstances would he wish LBB to be pursued by HMRC for tax.

Finally, the Committee noted section 3.72 of the report relating to Risk Management. Members noted that Risk Management training for staff had now been launched. Following agreement by the Audit Sub Committee, the Corporate Risk Register had been published on the web. It had been agreed that going forward, the Audit Sub Committee would have sight of both the departmental and contract risk registers. It was also intended that risk registers would go to PDS Committees to raise awareness. Risks would be reviewed twice a year and referred to PDS Committees. The purpose of this was not to review the risks themselves, but to review the controls around the risks. Members were informed that Zurich Insurance who were Bromley's insurers had been commissioned to carry out a comprehensive review of LBB's risk registers. They had already commenced work initially with a desk top review. The outcome would be reported to the Audit Sub Committee in November 2017.

**RESOLVED: That**

- 1. The progress report be noted.**

2. The list of Internal Audit Reports publicised on the web be noted.
3. The list of waivers sought since October 2016 be noted.
4. The update on cases referred to the DWP be noted.
5. The latest position on the options to appoint a local auditor be noted.
6. The outcome of the recruitment process for the Head of Internal Audit be noted.
7. The final outcome of the objection to the accounts from the External Auditors be noted.
8. The launch of the web based training for risk management, audit controls and focus on fraud be noted.
9. The update on high and significant risks and actions taken to improve the process and approve the revised corporate risk register be noted.
10. The Chairman write to Bromley MPs to raise concerns with the issues identified concerning the SFIS.

*Post Meeting Note:*

*Action with respect to resolution 10 would now be taken post General Election.*

**35            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 listed below as it was 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 were present, there would be disclosure to them of exempt information.

**36            EXEMPT MINUTES OF THE MEETING HELD ON 29th  
NOVEMBER 2016**

The exempt minutes of the meeting held on 29<sup>th</sup> November 2016 were agreed as a correct record.

**37            MATTERS ARISING FROM THE PREVIOUS MEETING-EXEMPT  
INFORMATION**

**CSD 17063**

The Sub Committee considered the update on Part 2 (Exempt) matters arising from the previous meeting.

**RESOLVED** that the report be noted.



**38            INTERNAL AUDIT FRAUD & INVESTIGATION REPORT**

**FSD 17037**

The Sub-Committee considered a report informing Members of recent Internal Audit activity on fraud and investigations across the Council, and providing an update on matters arising from previous meetings of the Audit Sub-Committee. The report outlined previously reported cases, new cases of interest and details of cases on the fraud register, as well as information on pro-active exercises.

**RESOLVED that the report be noted.**

**39            DATE OF THE NEXT MEETING**

The next meeting of the Audit Sub Committee was scheduled for 21<sup>st</sup> June 2017.

The Meeting ended at 10.05 pm