

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 8 November 2017

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor William Huntington-Thresher (Vice-Chairman)
Councillors Ian Dunn and Tony Owen

Also Present:

Barrie Cull, Deepali Choudhary, Nigel Davies, Catriona Ellis, David Hogan, Dan Jones, Linda Pilkington and Steve Wood.

Adam Lickorish and Rupert Riall--Zurich.

14 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Will Harmer and from Councillor Alan Collins.

15 DECLARATIONS OF INTEREST

There were no declarations of interest.

16 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 21st JUNE EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The public minutes of the meeting that was held on 21st June 2017 were agreed, and signed as a correct record.

17 QUESTIONS FROM MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions were received.

18 QUESTIONS ON THE REDACTED REPORTS PUBLISHED ON THE WEB

No questions were received on the redacted reports published on the web.

19 MATTERS OUTSTANDING FROM THE LAST MEETING NOT INCLUDING EXEMPT ITEMS

CSD17157

The Committee noted matters arising (excluding exempt information) from previous meetings.

The Committee was notified that the matter of resource for Internal Audit had been looked at. This process would be completed in April 2018 as this would allow for training costs to benefit from Apprentice funding.

The Committee was advised that the proposed letter to Bromley MPs concerning the Single Fraud Investigation Service (SFIS) had been sent, and a response had been received. Both the letter and the response had been circulated. The Chairman stated that he would be drafting a reply to the response that he had received.

RESOLVED that the Matters Arising report be noted.

20 OVERVIEW BY ZURICH ON CORPORATE AND DEPARTMENTAL RISKS.

An update on the Corporate and Directorate Risk Registers was given by Adam Lickorish and Rupert Riall on behalf of Zurich Risk Engineering.

The following Risk Registers were presented:

- Corporate Risk Register
- CEX Risk Register
- Finance Risk Register
- ECHS Risk Register
- ECS Risk Register
- HR Risk Register
- Commissioning Risk Register

The Risk Registers were divided into three main categories, which constituted a description of the risk, gross risk and net risk ratings.

‘Gross Risk’ is the Risk before any controls are taken into account and Net (or Residual Risk) is the score when current controls are taken into consideration. The Committee noted that four of the five net red RAG rated risks were found within ECHS, and that an additional ten amber risks across the directorates could easily move into the red category.

These areas of high risk within ECHS were:

- Failure to deliver an effective ECHS financial strategy
- Failure to deliver effective Learning Disability Services
- Failure to deliver effective Children’s Services
- Failure to deliver effective Temporary Accommodation Services

Zurich had also rated the Council's ability to effectively govern and manage contracts as a net 'red risk' after controls had been put in place.

The Committee was informed that the Zurich report constituted a 'Risk Overview', as part of a 'check and challenge' process.

The Committee was referred to page 5 of the Zurich report which was a table that mapped out Corporate Risks. The table outlined eight areas of Corporate Risk and organisational issues that were risk elements across all of the LBB Directorates. The remainder of the report from Zurich assessed risk elements in more detail across the individual Directorates.

The Chairman asked what LBB could do better as a result of the Zurich analysis. Mr Lickorish responded that the reporting of Risk would have greater visibility and depth as a result of Zurich's gap analysis and the introduction of the auto populated risk matrix.

The Chairman asked if similar strategic financial risks were seen in other Local Authorities. Mr Lickorish replied that this was indeed the case, and that similar problems had been identified in other boroughs. The Chairman was keen that the analysis produced by Zurich should not just be an academic exercise, but that the data should be used to develop policy.

A Member referred to references in the report to the 'existing controls that were in place'. He asked if this was something that had been evidenced, or was something that Zurich had accepted on trust. Mr Lickorish answered that the evidence had not been seen, but had been taken on trust. To have seen the evidence base would have lengthened the audit process. The Head of Internal Audit commented that 'Risk' had to be an integral aspect of the internal audit process.

A Member suggested that the focus should shift away from directly focusing on Risk, and rather focusing on controls. He asked why Zurich had not included a column in their matrices for fall-back plans. He felt that an additional column should have been added to show that a plan was in place should the Risk be realised. Mr Lickorish responded that a risk management journey was taking place, and that the first concern was to understand what risks existed, and then to align mitigations.

The Member continued by stating that there were four net red Rag rated Corporate Risks that still existed after controls had been put in place, and so the relevant action plans needed to be ready.

The Head of Internal Audit commented that there were Business Continuity plans in place that would be activated if Risks were realised. It was necessary to focus on mitigation initially. Normally back up plans were in place if required.

A Member referenced the Grenfell fire tragedy, and cautioned that back up plans were always required. The Head of Internal Audit remarked that for such a large scale incident as Grenfell, it was unlikely that any individual authority would be able to cope, and that London wide assistance was likely to be required. Risk responses were being updated and improved.

A Member asked if LBB had insurance to cover Business Continuity. Mr Riall explained that generally speaking it was the case that LBB would be insured against physical damage/loss incidents that may have an effect on Business Continuity. The Head of Internal Audit mentioned the possibility of cyber-attack, and that the matter of insurance against the effects of such an attack would need clarifying.

A Member commented that acronyms such as 'ECHS' etc. should be avoided, as they would not be understandable to everyone reading the report. He also asked if Zurich had looked at process maps and linked these to the Business. The answer to this was no, process maps had not been looked at.

A Member asked if Zurich had linked risks to complaints and compensation claims. He noted that half a million pounds had been paid out by the Council in compensation claims for people tripping up. He also asked (with reference to the Commissioning Risk Register), what was meant by 'a lack of clear management.' Mr Riall responded that it was the responsibility of Officers to identify risks.

A Member asked what Zurich considered to be the three most significant areas of Risk. Mr Riall highlighted the following three areas:

- Contract Management and Commissioning
- Risks associated with Information Governance
- Children's Services

He added that problems associated with contract management and commissioning was a London wide issue and was related to supply chain resilience.

The Chairman wondered if a monetary value could be aligned to the Risks, and was there a plan for a valuation process. Mr Lickorish expressed the view that it would be very challenging to attribute a monetary value to the Risks, and that the current matrices were sufficient.

A Member asked for more information regarding why some risks remained ragged as net red even with controls in place. Mr Lickorish responded that attempts could only be made to mitigate risk as far as possible, and that sometimes controls took time to embed.

A Member asked what the criteria were for allocating risks in the Commissioning Risk Register. Mr Lickorish answered that a discussion would take place as to where Risk should be allocated. Consideration would be applied to who was implementing controls and who the Risk owner was. In

these cases, the Risk owner would be the Director of Commissioning. It was not advisable for a risk to appear in more than one Directorate's risk register.

A Member asked for a timeframe for net red flagged risks changing to amber. Mr Lickorish responded that controls took time to embed, and it was not possible to state a timeframe.

The Chairman stated that the Zurich report was an interesting piece of work, and that when the Risk Registers were looked at next, it would be helpful to use comparatives, especially with respect to commissioning.

It was noted that Zurich had presented their findings to the Corporate Risk Management Group, the Directorate Management Teams, and the Corporate Leadership Team.

The Chairman thanked Mr Lickorish and Mr Riall for attending, and the very interesting and informative presentation around the Risk Register.

RESOLVED that the overview by Zurich on Corporate and Departmental Risks be noted.

21 INTERNAL AUDIT PROGRESS REPORT

FSD 17083

This report was presented to the Audit Sub Committee by David Hogan, Head of Audit.

The report was presented to inform Members of recent audit activity across the Council and to provide an update on matters that had arisen from the previous meeting of the Audit Sub Committee in June.

The Head of Audit outlined to Members the 'The Three Lines of Defence Model' that was applied by many commercial and public sector organisations and the role that Internal Audit played in the model. Internal Audit was the third line of defence that would report to the Audit Sub Committee, Senior Management and the Corporate Leadership Team.

An update on Audit resourcing was provided, and it was clarified that recruitment for the post of Trainee Auditor would commence in April 2018, making use of Apprentice Funding.

The Chairman welcomed Catriona Ellis to the Internal Audit Team.

A Member wondered if the Audit Plan had been drafted based primarily on resources rather than on what Internal Audit would actually do if there were no resource limitations. The Head of Audit stated that an Audit Needs Assessment was required. He expressed the view that in the current climate, it was only possible to plan ahead for one year, rather than five or six years which would have been preferable. This being the case, it was important to

use the services of other departments in the Council, as outlined in the processes around the 'three lines of defence'.

The Head of Audit wanted to include a high level review of Governance in next year's plan, and to give priority to looking at the more risky issues. There was a need to prioritise and risk assess.

A Member stated that the Head of Audit should bring concerns to the Committee if needed, and that Internal Audit was a crucial part of the Council. A Member commented that in his experience, not much seemed to come to light in planned audits, but rather things came to light from self-referrals. The Head of Audit advised that not much in the way of fraud was picked up directly by Internal Audit, the emphasis was in ensuring that the correct systems and governance were in place; this in turn would reduce the scope for fraud. It was important to choose the right areas to investigate.

The Committee noted Appendix A which detailed outstanding priority one recommendations. A comprehensive update on the Waste Services Audit was detailed in the part 2 report. Other areas where priority one recommendations were outstanding were:

- Document Storage and Retention
- Temporary Accommodation
- Review of Waivers
- Review of Reablement Team
- Street Works
- Review of Contract Monitoring

Members noted that although four priority two recommendations had been raised with respect of Payroll Expenses, the assurance rating was Substantial. Similarly, although there were two priority two recommendations with respect to the Pensions Audit, the overall rating was Substantial.

The Committee was briefed that three priority two recommendations had been made with respect of the Bromley Children's Project, but that the overall assurance rating was Substantial.

The Head of Audit informed Members that the follow up audit relating to Children with Disabilities had been completed, and that of the four recommendations arising from the previous audit, two had been fully implemented and two had been partially implemented.

The Audit opinion relating to Debtors was Substantial, but five priority two recommendations had been suggested to further improve controls. Two priority two recommendations had been raised with respect of the Early Years Audit, but the overall Audit opinion was Substantial. The Head of Audit reported on the audit of internet usage. Three priority two recommendations were raised to improve controls, but the overall opinion was Substantial.

The Committee noted the follow up Audit reports for Marjorie McClure School and Poverest Primary School.

The Committee was updated concerning the follow up report on the Community Infrastructure Levy (CIL). It was noted that five of the previous recommendations including the two priority one recommendations had been implemented, and that four new recommendations had arisen out of the follow up audit.

Members were appraised regarding the Contract Monitoring Audit. Although controls were working well in the areas of locating contracts and ensuring that they were signed and sealed, the overall assurance opinion was Limited. Internal Audit had made three further recommendations, one was a Priority One, and two were Priority Two recommendations. These were related to ensuring that relevant supporting documentation was retained with the contracts, and that the value of Public Liability Insurance held was sufficient.

Members were briefed further on Priority One recommendations:

- Document Storage and Retention
- Temporary Accommodation
- Waivers
- Street Works
- CIL
- Contract Monitoring
- Learning Disabilities

Document Storage and Retention:

It was understood that 900 boxes had been identified for destruction by TNT. Even so, it was expected that for a variety of reasons new files would need storing, and that this was likely to remain as a Priority 1 issue until the right equipment and IT Infrastructure was in place. The Chairman wondered how this issue could be moved on, as the date for completion of the Civic Centre Accommodation Strategy had not been clarified. A Member suggested that LBB should not wait, and should progress with the implementation of the IT infrastructure.

Temporary Accommodation:

Members were reminded that at the previous Audit Sub Committee meeting there were issues that needed to be resolved around the collection of rent, the use of accommodation and delays in dealing with evictions. The Committee was briefed that Internal Audit had met with the Director of Housing and The Head of Allocations and Accommodation to discuss these issues. It was also the case that the Housing Team were working closely with Liberata to redraft the arrears collection procedures and processes. A new Housing IT system was being developed. The Director of Housing had asked that the Priority 1

recommendation remain in place while the new IT system and other processes were being embedded.

Review of Waivers:

Members heard that the waiver process was being enhanced, and that a new digital authorisation process was being developed. The view of Internal Audit was that the two priority one recommendations should remain in place until the digital authorisation process had been fully implemented.

Street Works:

The Committee heard that in the audit report that was finalised in June 2017, five priority one recommendations had been identified. The recommendation relating to contract monitoring minutes had evidenced progress, and so the recommendation was now closed. A further recommendation had been raised with respect to unauthorised variations to contracts. Internal Audit had evidenced that a new Change Control Notice was being implemented and so the recommendation was now closed.

Two other issues that had previously been identified were problems with complying with contract procedure rules and inadequate contract monitoring. Internal Audit was satisfied that sufficient progress had been made in both these areas, and so the recommendations were now closed. The Committee were informed that the Priority One recommendation relating to raising invoices in a timely manner would remain open.

Internet Usage:

The Head of Internal Audit explained that there was a lack of technical controls that could be applied to Blackberry phones to prevent users from accessing inappropriate sites, although there was no suggestion that users were doing so. In terms of staff accessing the internet, staff were trusted not to abuse access to the internet or spend excessive time in using the internet for non-work related use. Technical controls were in place, and managers could ask for reports if they felt it was required.

Contract Monitoring:

Members were concerned to note that problems existed with supporting documentation that either was missing or could not be found and with copies of Public Liability Insurance not being available in certain cases. As a result two Priority One recommendations had been raised.

The Committee noted that Ernst & Young had been appointed as the new External Auditors. They would commence work for LBB on 1st April 2018.

Members noted the Annual Audit Letter, and that the Auditor had issued an unqualified opinion on the authority's financial statements on 27th September 2017.

Members were advised that there had been an objector to the accounts. The objections were in two areas:

- Waste Management and Street Cleansing Services
- Trade Waste Collection Service

The external audit of the Council's accounts could not be concluded while the objections remained open. A Member asked what happened next in relation to the objections. It was explained that this was a matter that would have to be dealt with by the External Auditors—they would have to assess if the objections materially affected the accounts and were currently reviewing the issues raised. This process was likely to be expensive to the Council. The External Auditors could be challenged by the Objector in court if not satisfied.

The matter of 'Journal Posting' was discussed briefly, but no recommendation was made on the night. 'Journal Posting' was the name given to the practice of using book-keeping practices to move money between budgets internally. Internal Audit would look at the issues raised in its Main Accounting Audit scheduled for quarter 4.

The winner of the 'Auditor of the Year' was Deepali Choudhary, and she was presented with the Tickner Cup.

RESOLVED that:

(1) The Committee note the results of the Zurich Risk Management exercise

(2) The Committee note the actions taken to improve the Risk Management Process

(3) The Committee note the Departmental Risk Registers

(4) The Committee approve the revised Corporate Risk Register

(5) The Committee note the Internal Audit Progress Report

(6) The Committee note the redacted Internal Audit reports published on the web

(7) The Committee note the list of waivers sought since March 2017

(8) The Committee note the appointment of Ernst and Young as the new external auditor

(9) The Committee note the letter of Representation

(10) The Committee note the Code of Transparency around the reporting of fraud

(11) The Committee note the minute extract from the GP&L Committee dated 12th September 2017

**22 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.

**23 EXEMPT MINUTES OF THE MEETING HELD ON 21ST JUNE
2017**

The exempt minutes of the meeting held on 21st June 2017 were agreed as a correct record.

**24 MATTERS ARISING INCLUDING EXEMPT INFORMATION (Part
2) FROM THE MEETING ON 21ST JUNE 2017**

The Matters Arising (including exempt information) from the meeting held on 21st June 2017 were noted.

The detailed minutes for this item are noted in the part 2 minutes.

**25 INTERNAL AUDIT FRAUD & INVESTIGATION AND EXEMPT
ITEMS REPORT**

Members noted and discussed the Internal Audit Fraud & Investigation and Exempt Items Report.

The report informed Members of recent Internal Audit activity on fraud and investigations across the Council and provided updates on matters arising from previous Audit Sub Committee meetings. The report detailed updates on previously reported cases, expanded on new cases of interest, detailed cases on the fraud register and provided information on a pro-active exercise. It also provided information on reports which were exempt from publication.

26 DATE OF THE NEXT MEETING

The date of the next meeting was confirmed as 7th March 2018.

The meeting ended at 9.20pm

Chairman