

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 24 May 2018

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor William Huntington-Thresher (Vice-Chairman)
Councillors Gareth Allatt, Ian Dunn, Robert Evans,
Christopher Marlow and Tony Owen

Also Present:

Deepali Choudhary, Catriona Ellis, David Hogan, Linda
Pilkington and Councillor Stephen Wells

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

No apologies for absence were received.

2 DECLARATIONS OF INTEREST

The Chairman declared an interest as a former Governor of St Olave's School.

Councillor Allatt declared an interest as a former employee of Capita, in addition to being a current shareholder.

3 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 7th MARCH EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

Councillor Owen referred to certain matters that he had raised with the Head of Audit prior to the meeting of the Audit Sub-Committee. It was agreed that the Head of Audit would meet outside of the current meeting to discuss these matters with the Monitoring Officer.

RESOLVED that the minutes of the meeting held on 7th March (excluding exempt information) are agreed and signed as a correct record.

4 QUESTIONS FROM COUNCILLORS OR MEMBERS OF THE PUBLIC

No questions were received.

5 MATTERS OUTSTANDING FROM THE LAST MEETING-- EXCLUDING EXEMPT INFORMATION

CSD 18074

The updates concerning insurance cover for cyber-attacks and the objection to the accounts were noted. Members were briefed that LBB's current insurers were developing a policy, and that LBB would be going to market to assess the different insurance options that were available to cover against cyber-attacks in the future.

RESOLVED that the Matters Arising report is noted.

6 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE WEB

No questions were received concerning the audit reports published on the web.

7 INTERNAL AUDIT PROGRESS REPORT

FSD 18037

The Internal Audit Progress report was written by David Hogan, Head of Audit.

The report had been drafted to update Members of recent audit activity across the Council and provided an update on matters that had arisen since the last meeting of the Committee. The Committee was asked to note the report and to comment on matters arising, as well as noting the list of internal audit reports published on the Council's web site. Members were also being asked to approve the nomination for Auditor of the Year and to note the latest position on the Council's Departmental and Corporate Risk Registers.

The Head of Audit briefed Members around the Priority 1 (P1) update for document storage and retention. It had been mentioned previously that this matter was directly related to the Civic Centre Accommodation Strategy. It was noted that the brief for the Instruction and Intention to Tender for a Multi-Disciplinary Consultancy Evaluation for the Civic Centre Strategy, referenced the need to move to a paper light environment, and it was expected that the consultants would be appointed in quarter 2 of 2018.

It was noted that 20 Bromley officers had been emailed and reminded to confirm the destruction of 904 boxes held by TNT. Some officers were planning to visit the storage site during the summer when work levels had decreased. It was clarified that the storage site was based in Essex. The Chairman enquired how the costs for the storage were apportioned, and the Head of Audit responded that he presumed that the costs would be recharged to the various departments. Ms Pilkington informed the Committee that the cost of storing the 904 boxes was in the region of £2k per annum.

Members were told that going forward (and especially with the current GDPR initiatives) there would be a requirement for a twofold focus. One would be concerning the destruction of existing boxes, and the other focus would be on reducing the volume of stored data. The P1 recommendation remained outstanding.

With respect to the Review of Waivers, Members heard that both P1 recommendations were being progressed as part of the electronic authorisation process, and that this was connected to the development of the Contracts Database. (CDB). In the meantime, paper authorisation forms were being used. Although the recommendations were in progress, they remained open. It was expected that the renewal reminders being generated from the Contracts Database would reduce the number of waivers requested.

Members were appraised concerning the Reablement Service. They were informed that as the service had remained in-house; the P1 recommendation relating to the use of the Outcome Management Tool had been re-instated. The P1 recommendation relating to key performance data had only been partially implemented. It was clarified that the 'target of 65%' related to time actually spent with clients.

A brief update was provided concerning the Contributions Policy. It had previously been the case that users of the Reablement Service were not being charged for cancelled calls where sufficient notice had not been provided. Charges were now being levied and this recommendation was regarded as implemented.

Members were reminded that 2 P1 recommendations had previously been suggested with respect to Contract Monitoring. This was particularly related to the storing of supporting documentation for contracts being stored in a single location for ease of access. The two P1 recommendations were now regarded as closed.

An update was provided concerning the three P1 recommendations relating to Agency Staff. The first recommendation was in respect of governance arrangements, and this remained outstanding. The second recommendation was to review agency staff engagements which had exceeded six months. This recommendation was being progressed but was also still regarded as being outstanding. The final recommendation was with respect to the recovery of IT equipment when an agency worker left the employ of the Council; this recommendation was regarded as implemented.

Members were reminded that they had previously been notified that Limited Assurance had been assigned to the Community Equipment Store (TCES) audit. There had been a P1 recommendation that related to a lack of clarity concerning the roles and responsibilities for contract monitoring. Evidence had now been provided that the various roles pertaining to TCES had been allocated, and that the relevant officers understood their roles. In view of this, the P1 recommendation had been signed off, and other less urgent recommendations would be reviewed in 2018-2019.

Councillor Owen expressed concern at the apparent lack of management oversight in this case. The Head of Audit said that management had not considered all of the aspects of the previous Contract Manager's role, and some aspects had been overlooked. It was debateable whether or not this could be classed as 'bad management' as it was the case that managers were attempting to accomplish more with fewer resources. The implementation of controls was also being affected. The Head of Audit felt that there were issues across the board caused by diminishing resources. It was not necessarily the quality of management.

Councillor Owen asked why PDS Committees were not finding out about problems, and perhaps it was the case that Members needed to structure themselves differently. The Vice Chairman stated that it was difficult for scrutiny committees to pick up the fine details, and that perhaps it was the case that PDS Committees should work differently. Contract variations were not being fed through to PDS Committees.

Councillor Allatt expressed the view that managers should be aware of the span of control and VFM issues.

Councillor Owen stated that LBB needed to be aware of the consequences and complications arising from cutting staff numbers. He expressed the view that Members were not being used effectively and that they needed a steer.

Councillor Allatt enquired as to how internal audit was viewed—was it respected and did it have 'teeth'. Mr Hogan responded that Internal Audit was respected. Officers would be concerned if they were asked to appear before the Audit Sub-Committee, and there were consequences for managers who were held to account. Officers now wanted to get things right and avoid P1 recommendations. The Chairman confirmed this and stated that officers did not like having to appear before the Committee.

The Vice Chairman stated that in his view, the Audit Sub-Committee should not be seen as a place where officers should attend and be fearful. He felt that the objective was to improve services, efficiencies and VFM. In his view a climate of fear would not be conducive to this, and he didn't want a situation developing where managers may be hiding things through fear.

Mr Hogan acknowledged that the correct balance was required. Officers often asked Internal Audit for advice. It was important that people were held to account, but in a reasonable and constructive manner.

Members were informed that the Audit of Children with Disabilities had resulted in the making of one P1 recommendation and seven P2 recommendations. The audit opinion was Limited.

Members were then briefed concerning the review of LBB's compliance with Intermediaries Legislation (IR35). It was felt that good controls were in place. HR needed to check if LBB were dealing with personal service companies or

not. Issues of non-compliance had to be reported to HR immediately. HMRC needed to see that LBB were taking the matter of compliance seriously.

With respect to Treasury Management, it was noted that controls had been put in place and were working effectively. These controls related to assessing the Council's financial position on a regular basis, complying with investment processes, and the completion/accuracy of investment records. Three P3 recommendations had been suggested to improve controls. The Audit opinion with respect to Treasury Management was Substantial.

The Committee was apprised that the three audits concerning the contracts for the commissioning of Public Health Services had all resulted in audit opinions that were Substantial.

Members were informed that LBB could claim funding from central government for work undertaken with 'troubled families' if it could be evidenced by Internal Audit that the criteria for claiming the funding had been achieved. A random sample of claims checked by Internal Audit showed that the relevant criteria had been achieved, and so the claims had been validated. The Chairman enquired if the 'Tacking Troubled Families' program was working. Mr Hogan responded in the affirmative and said that the life chances of those benefiting from the programme had improved—this was evidence based.

Members were informed that internal audit had visited Southborough School on 27th/28th February, and found that in most areas, controls were in place and working well. Several P2 and P3 recommendations had been suggested and had now been adopted. The audit opinion was therefore Substantial.

Members noted that Barrie Cull had been nominated for the award of 'Auditor of the Year'. Barrie had been nominated because he had played a key role in producing monitoring systems and working paper templates in house to replace the commercial IT system that had been in place for many years. Barrie was also Internal Audit's lead for GDPR and had undertaken excellent audit work with respect to LBB's Community Infrastructure Levy where P1 recommendations were identified with concerning uncollected income.

The Sub-Committee was happy to endorse Mr Cull's nomination.

Mr Hogan briefed Members that it had been agreed that risk registers would be reviewed at least 6 monthly by Internal Audit and by PDS Committees. The Homeless Risk had been escalated to the Corporate Risk Register. It was noted that the Pension Fund had its own risk register and that the external auditors also reported on the Pension Fund.

Councillor Dunn praised the risk registers, and felt that they were now better and more vigorous than before. He queried why it was in some cases that both the gross and net risks scores were the same. Mr Hogan said that he would review the logic behind the scoring in those particular cases.

It was noted that the Corporate Risk Management Group had commissioned two pieces of work to be undertaken in 2018:

- Information Governance and a GDPR Health-Check
- Business Continuity Plan Testing.

Councillor Allatt asked if the Audit Plan for 2018/19 had been finalised and it was confirmed that it was. Councillor Allatt asked for a copy of the Audit Plan. He said that he was particularly interested in the audit of Adult Social Care, and felt that there were possibly big savings that could be made in this area.

RESOLVED that

1- The Internal Audit Progress report is noted

2- The list of Internal Audit reports published on the Council's website is noted

3- The nomination of Barrie Cull as Auditor of the year is approved

4- The latest position on the Council's Departmental and Corporate Risk Registers is noted

5- The list of waivers sought since October 2017 is noted

8 ANNUAL INTERNAL AUDIT REPORT

FSD 18035

The Annual Internal Audit Report was written by David Hogan, Head of Audit.

The report updated the Committee concerning the Internal Audit activity for 2017/2018.

Members were asked to note the report and the Head of Audit's opinion on the soundness of the internal control environment within the London Borough of Bromley. The report was intended to assist the Council in meeting the requirements of the Accounts and Audit Regulations 2015. The Committee noted that fundamental aspects of the Internal Audit reviews were to assess the effectiveness of controls in place to mitigate against associated risks.

Members were informed that the 2017/2018 Internal Audit Plan had identified a total of 70 separate tasks, not including schools. Additionally, 19 audits had been carried forward from the previous year. The Head of Audit explained to Members that achievement of the 2017/2018 plan had been affected by several factors. In terms of resources for 2017/2018, the total number of days lost because of sickness and an unfilled vacancy, was 149. Resultantly, additional resources were procured from Mazars. Summaries were provided

of work days allocated to Departments, and a summary of work that had been undertaken.

The Head of Audit explained the Assurance Levels used, and their definition. The Committee heard that in June 2017, 35 Priority 1 recommendations had been reported to the Audit Sub Committee, and at the time of writing the report, 31 had been implemented.

Members were provided with an interesting update concerning risk registers. It was noted that Zurich had been commissioned to undertake a check and challenge process on the risk registers for LBB's three Directorates. The results of this process were reported back to the Directorate Management Teams, and this had resulted in updated risk registers being produced. The findings were also reported to the Corporate Leadership Team and it was agreed that the same challenge and scoring should be undertaken for corporate risks.

The Head of Audit explained that all internal audit arrangements were subject to a thorough internal review of quality; this was to ensure that the quality of the work was in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).

It was noted that under the requirements of the PSIAS, there was a need for an external quality assessment of the internal audit service every five years. This had been undertaken in March 2016, and it was concluded that the section generally conformed to the required standards.

The Head of Audit briefed the Committee that the commercial software used by Internal Audit had no longer been supported from February 2017, and so an alternative had been required. A decision was made to develop new systems in house (by Internal Audit) using MS Word and Excel. The decision to develop systems in house had resulted in savings for the Council.

Members were briefed that the annual assessment was based on work reported to the Audit Committee between April 2017 and the date of the report. The assurance activity undertaken by the Council and other external assurance providers was taken into account when finalising the Annual Assessment. Reasonable assurance could be provided that there was generally speaking a sound system of internal control.

The Head of Audit advised that the Council had identified challenges with respect to making future budget savings alongside the maintenance of frontline services. A balanced budget had been set for the 2018/19 financial year, and income and savings options had been identified for 2019/20. Beyond this, there was likely to be significant future challenges. It was further noted that reduced resources were being stated by some managers as having an adverse effect on the ability to implement audit recommendations.

The Head of Audit acknowledged that contract management issues had been identified across the Council over the last two years. Because of this, actions

had been taken to strengthen arrangements across the Council. These arrangements included the Contracts Database with an alert system for tendering and renewal. Comprehensive training was now available for everyone involved in the commissioning of services, which consisted of four training modules—each lasting for three hours.

Finally, the Committee was informed that significant changes were required to ensure that the Council would be compliant with the General Data Protection Regulations 2016 (GDPR) when introduced on 25th May. Resultantly, a detailed and challenging independent review had been undertaken by the 'Data Protection People', and 51 recommendations were provided by the Review.

The Head of Audit also provided brief updates regarding Corporate Related Fraud, the National Fraud Initiative and Freedom Passes.

The big issues for LBB now were:

- The Council's financial position going forward
- Contract Management
- GDPR

It was mentioned that the pro-active exercise which had been undertaken in 2016-2017 had resulted in 684 Freedom Passes being cancelled with savings estimated at £200k.

RESOLVED that the report be noted, and that the Head of Audit's opinion on the soundness of the internal control environment within LBB also be noted.

9 ANNUAL GOVERNANCE STATEMENT

FSD 18036

The Annual Governance Statement report was prepared and presented by David Hogan—Head of Audit.

The report was required because the Accounts and Audit Regulations 2015 required that a local authority undertake a review at least annually of the effectiveness of its system of internal control. This statement would be included with the published accounts. In England, the statement was the Annual Governance Statement. It was also included in the relevant CIPFA Code of Practice.

The report asked Members to comment and agree the Annual Governance Statement (AGS).

The Head of Audit outlined the sources of assurance that had to be relied upon when the AGS was being prepared. These sources included responsible directors and managers in the Council, as well as external auditors, other

review agencies and inspectorates. The Head of Audit opinion also formed a key part of the review.

The annual review had identified several areas where further work was required to monitor how the key risks facing the Council were being managed, or where further work was required to improve systems. The first area identified was that of Finance and it was noted that in the future, significant challenges would exist in trying to reconcile budget savings with the maintenance of front line services.

Members were appraised that contract issues had been identified over the last two years which had highlighted the need for stronger control and better management oversight. Also identified was the need to effectively use performance management information and improve quality assurance arrangements.

The Committee noted that the Council's Code of Corporate Governance had not been updated to reflect the 2016 CIPFA guidance.

Members were appraised that significant changes were required so that the Council would be compliant with the General Data Protection Regulations 2016 (GDPR) which would be introduced from May 25th. Penalties for non-compliance could be severe.

Finally, the Head of Audit reminded Members that as part of the conclusion process in finalising the AGS, it was important that the Audit Sub-Committee provided robust independent consideration, challenge and ultimately—approval of the document. Once agreed by Internal Audit, the Annual Governance Statement would be signed by the Leader and by the Chief Executive.

RESOLVED that the Annual Governance Statement for 2017/18 is approved.

10 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.

11 FRAUD, INVESTIGATIONS AND INTERNAL AUDIT EXEMPT ITEMS REPORT

FSD 18038

The Fraud, Investigations and Internal Audit Exempt Items report was written and presented by David Hogan, Head of Audit.

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

Members were asked to note and comment on the contents of the report.

The full minutes have been published internally as an 'exempt information' item.

12 EXEMPT MINUTES OF THE MEETING HELD ON 7th MARCH 2018

The exempt minutes of the meeting held on 7th March 2018 were agreed and signed as a correct record.

13 AOB

The Chairman referred to a previous response letter that he had received from the DWP with respect to the Single Fraud Investigation Service. The Chairman's response had been delayed due to Purdah. The Chairman stated that his follow up response letter to the DWP would be circulated to members of the Audit Sub-Committee via the Committee Clerk. Members would be asked for their views before the final response was sent to the DWP by the Chairman.

14 DATE OF THE NEXT MEETING

The date of the next meeting of the Audit Sub Committee was confirmed as 25th September 2018.

The Meeting ended at 9.00 pm

Chairman