

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 4 June 2019

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor Robert Evans (Vice-Chairman)
Councillors Gareth Allatt, Ian Dunn, Keith Onslow,
Tony Owen and Stephen Wells

Also Present:

Deepali Choudhary, Barrie Cull, Viknesh Gill, David
Hogan, Councillor Pauline Tunnicliffe and Councillor
Angela Wilkins, Hannah Lills and Nishtha Gupta

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Catriona Ellis and Linda Pilkington.

2 DECLARATIONS OF INTEREST

No declarations of interest were declared initially.

Later in the meeting a matter was raised pertaining to St Olave's' School. At that point Councillors Stephen Wells and Robert Evans made declarations in that they both had interests in the Court of St Olave's.

The Head of Audit and Assurance declared an interest as a member of CIPFA.

3 CONFIRMATION OF THE MINUTES OF THE AUDIT SUB COMMITTEE MEETING HELD ON 26th FEBRUARY 2019-- EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The part 1 minutes of the meeting of the Audit Sub Committee held on 26th February 2019, were agreed and signed as a correct record.

RESOLVED that the part 1 minutes of the meeting that was held on 26th February 2019 be agreed and signed as a correct record.

4 QUESTIONS TO THE AUDIT SUB COMMITTEE FROM COUNCILLORS OR MEMBERS OF THE PUBLIC

No questions were received.

5 MATTERS OUTSTANDING REPORT

CSD 19080

Members noted that the outstanding matter relating to insurance against cyber-attack had now been closed, but that the matter relating to the objection to the accounts was still outstanding. A Member expressed concern at the length of time that was being taken to close the accounts. It was noted that this was a matter for the previous external auditors (KPMG) to resolve. It was agreed that the Head of Audit and Assurance should seek an update regarding this matter from KPMG.

Members noted the update on the Civic Centre Accommodation Strategy that had been provided by the Senior Property Manager and the update concerning the anti-fraud and corruption policy.

As requested, a briefing concerning the rental arrears of community groups had been provided by the Head of Asset and Investment Management. Members had asked for additional data and this had been requested by the Committee Clerk and subsequently disseminated to the Committee via email.

RESOLVED that the Matters Outstanding report be noted and that the Head of Audit and Assurance should seek an update from KPMG regarding the outstanding issue of the objections to the accounts.

6 QUESTIONS CONCERNING THE AUDIT REPORTS PUBLISHED ON THE WEB

No questions had been received concerning the Audit reports that had been published on the Council website.

RESOLVED that the Audit reports published on the Council website be noted.

7 EXTERNAL AUDIT PENSION FUND PLAN 2018-19 AND AUDIT FEE LETTER FOR 2019-20

FSD 19062

The report reviewed the External Auditor's Pension Fund Plan arrangements for 2018-19 and also reviewed the Audit Fee Letter for 2019/20. Members noted the significant risks set out in the plan.

It was explained that the indicative fee was based on certain assumptions which were detailed in the Audit Fee Letter. Fees would be reviewed and updated as necessary, within the parameters of the contract. The indicative fee for the main accounts was £91,689 and for the Pension Fund was £16,170. Hannah Lill, (Ernst & Young), attended the Committee to present the report and the fee proposal. The Committee was pleased to note that the scale of audit fees remained the same as the previous year.

A Member expressed concern that the report on the External Audit Pension Fund Plan had not been brought to his attention previously in his role as Chairman of the Pensions and Investment Sub-Committee. He said that new rules were being brought in which would increase audit requirements and that in the future there could be additional issues concerning 'Admitted Bodies'. These issues could potentially increase the cost of managing the Pension Fund. He asked if there was going to be an audit on governance with respect of the Pension Fund. Ms Lill responded in the affirmative but explained that the pension audit would not be undertaken in isolation.

A Member asked about the audit of the LCIV (London Collective Investment Vehicle). It was explained that an audit of the LCIV would take place, but this would be a separate audit.

Ernst and Young (E&Y) had identified a possible risk in that the valuation of investments could sometimes be mis-stated. In some of these cases, E&Y had stated in their report that there may be occasions when they would require input from their own valuation specialists. A Member asked why this was necessary as LBB had their own Actuary. Ms Lill responded that generally speaking this would not be necessary—it would just be in the odd case when there may not be sufficient evidence provided, or where additional expertise was required.

In response to a question, Ms Lill explained the difference between 'Performance Materiality' and 'Planning Materiality'. A Member referred to page 13 of the report from E&Y where it referred to '*substantive tests of detail of transactions and amounts*'. He asked what was the definition of '*substantive*' in this context. Ms Lill answered that there were two different types of approaches that could be followed in the audit—a substantive approach and a 'control' approach. The 'control' approach would be more detailed, would require specialist IT input and would therefore be more expensive.

The Planning Report set out the following financial parameters:

- Planning Materiality--£9.67M
- Performance Materiality--£7.2M
- Audit Differences--£483,500

Members noted how Ernst and Young would respond to Significant Risks, and what the various areas of focus would be. Members were appraised on the timescale relating to communication and deliverables.

RESOLVED that:

1) The External Auditor's arrangements for the Bromley Pension Fund Planning Report for 2018-19 are noted.

2) Members note the materiality limits within the plan and confirm their understanding of, and agreement to, the materiality and reporting levels as outlined in the report.

3) Members note and agree the risks identified in the 2018/19 Audit Strategy.

3) Members note the contents of the Audit Fee Letter for 2019/20.

8 INTERNAL AUDIT PROGRESS REPORT

FSD 19050

The report informed Members of recent audit activity across the Council and provided updates on matters that had arisen from the previous meeting of the Committee.

The overall objective of the Financial Strategy and Budget Compliance Audit was to review the key controls around the Council's financial strategy and budget monitoring arrangements. Members noted that controls were in place and working well. Internal Audit had made three priority 2 recommendations to improve the framework of controls around the Financial Strategy and budget monitoring arrangements.

Members were appraised concerning the audit of Housing Benefit and the Council Tax Reduction Scheme. They were pleased to note that the audit opinion was 'Substantial'. A priority one and a priority two recommendation had been made to improve controls.

However, the audit of Arboricultural Services revealed many defects, and four priority one recommendations had been raised, along with six priority two recommendations. The priority one recommendations related to:

- Deficiencies in the payment process
- A significant number of orders remained 'open' on the 'Confirm' system.
- Deficiencies were identified in the way the contract was monitored
- Defaults were not being processed correctly

The value of the defaults had been estimated at £6357.00 and it was recommended that the default amount be recovered in the final invoice payment. The audit opinion for Arboricultural Services was therefore 'Limited'. The Head of Audit and Assurance explained that Arboricultural Services had lost the Service Manager in August 2018, and that one of the remaining officers had to step into the role at short notice on an interim basis, and probably with an inadequate hand over. In January 2019, two more officers left the service, and this was probably one of the main reasons why there had been so many difficulties. Additionally, the management of this contract had not been passed over to the Business Performance Management Team as had other ECS (Environment and Community Services) contracts. Members

found this surprising and wondered why this was the case. It was anticipated that now a business performance framework was going to be used, with a corrective action plan adopted—that the situation would improve significantly.

It was noted that the service still had staffing issues, but recruitment was now underway to recruit a new officer.

The Chairman was disappointed to hear of further problems with an ECS contract, and was pleased to note that the contract would be monitored going forward by Sarah Foster's team.

It had been mentioned that the new Arboricultural Service contract had commenced in April 2019. A Member wondered how a new contract could be negotiated when there were so many issues with the previous contract. It was explained that enough data relating to work undertaken and completed existed to enable this to be done.

A Member expressed concern that the contract had been allowed to drift along for so long without management control. He felt sorry for the Interim Service Manager and suggested that perhaps the Executive Director for Environmental and Community Services be asked to attend a meeting of the Audit Sub-Committee to explain. This was a suggestion but was not passed as a resolution.

A Member said that in his view, the management of the contract had been a shambles since 2008, and he asked what assurance could be provided that high level contracts were now being managed effectively. He suggested that the Contracts Sub-Committee should be re-instated.

A Member asked if a report on Arboricultural Services had gone to the Environment and Community Services, Policy Development and Scrutiny Committee (ECS PDS Committee) yet, and the answer to this was no. He expressed the view that as well as the PDS, the matter should also be referred to the Commissioning Board. The Head of Internal Audit and Assurance responded that it was possible to refer the matter to the Procurement Board. It was then noted that a Member had already requested that the matter be referred to the ECS PDS Committee. A Member said that it would be good to know when an audit on Arboricultural Services had previously been undertaken. The Head of Internal Audit and Assurance said that he would investigate this.

A Member commented that if tree inspections were not being adequately carried out, then this could result in insurance claims for tree damage being instigated against the Council. He asked if LBB had lost any money due to the deficiencies in the management of the contract and the Head of Internal Audit and Assurance responded that he was not aware that LBB had lost any money.

It was agreed that the issues concerning Arboricultural Services be referred to the ECS PDS Committee for their attention and scrutiny.

The Committee heard that the audit of Residential Care had gone well, and the audit opinion was 'Substantial'. Two priority two recommendations had been made. There had been instances when the weekly fee charged by the service provider had exceeded the recommended ceiling rates without proper explanation. There had also been instances when placements had been categorised as 'Emergency Placements' in error—this had now been addressed.

Members were pleased to learn that the audit of Strategic Commissioning' had gone well, and that the audit opinion was 'Substantial'. The overall objective of the audit was to review the 3 lines of defence and existing controls in place to mitigate the risk of failure to deliver the target operating model as a commissioning organisation. One priority two recommendation was made to improve the control framework.

Members were briefed around the audit of Total Facilities Management (TFM). The objective of the audit was to review the key controls around the management of the Total Facilities Management contract. Unfortunately, the audit opinion for Total Facilities Management was 'Limited'. Eleven priority two recommendations were made by the audit team to improve controls. Ten of these were accepted by management for implementation. One was accepted as a 'risk' but no management action was proposed.

The recommendation that was accepted in principle (but without any action being proposed by Management) related to carrying out pro-active measures such as spot checks on maintenance works undertaken by the contractor. When the reason for this was queried by Members the answer provided was that management had stated that they did not have the required resources or expertise. Members were not happy with this as they felt that to do basic maintenance checks would not require significant expertise.

With respect to the TFM contract, mention was made of problems with the complaints process and the use of a customer satisfaction survey. A Member expressed the view that customer satisfaction surveys were of very limited value, and felt that the focus should be on resolving issues that had arisen from the complaints process.

It was agreed that the matters raised in the TFM audit should be referred back to the Executive, Resources and Contracts PDS Committee for their information and scrutiny.

The Head of Audit and Assurance continued with an update on Traffic and Road Safety Procurement. The procurement arrangements had been audited to ensure that controls were in place and that contract procedure rules were being complied with. There were three priority 2 recommendations, but the overall audit opinion was substantial.

The Committee was briefed on the audit of Treasury Management. The objective of the audit was to review the key controls around the Council's

investments. The Committee was pleased to note the 'Substantial' audit opinion, with just one priority two recommendation made to improve the control framework.

Members noted that with respect to the audit of the Adult's Social Care Budget Management, and Children's Social Care Budget Management, that in both cases the audit opinion was 'Substantial'. The Committee was appraised concerning the sharp increase in demand for Children's Social Care Services nationally and the risk of a consequent overspend, which was why it was included in the Audit Plan.

Members noted that the audit of payroll expenses had resulted in a 'Substantial' audit opinion. Three priority 2 recommendations were made to tighten the control framework.

The Head of Audit and Assurance explained how the Troubled Families Programme, and the criteria used to determine if the intervention in the family had been successful, worked. If an intervention was judged to be successful, then a 'results payment' could be claimed. The total amount claimed for payment by results for the 426 individual claims submitted between the period 1 October 2018 and 31 March 2019 was £340,800.

Regarding the update following the Home Tuition Audit, the Head of Audit and Assurance briefed the Committee concerning the progress made in dealing with the three outstanding priority 1 recommendations. These related to Core Panel Decisions, Attendance Registers, and Procurement issues (which included the use of only one supplier). It was now the case that the recommendations pertaining to Core Panel Decisions and Attendance Registers had been fully implemented; the recommendation relating to procurement issues had been partially implemented.

Members were briefed around the audit undertaken to review Health and Safety. A priority 1 recommendation had been made because a full suite of risk assessments was not available. This was a work in progress and it had been agreed by the Corporate Leadership Team that the matter be added to the Annual Governance Statement as a significant weakness.

Barry Cull (Principal Auditor) informed the meeting that the matter of the extended use of agency workers in non-ECHS roles had been referred by the Director of HR to the Chief Officers' Executive (COE). The COE issued instructions to Directors for a business case to be made to and approved by the Director of HR, for all non-ECHS agency staff who had been in post over 6 months. Resultantly, all 37 non ECHS business cases had now been received by the Director of HR and 25 had been approved. The outstanding business cases would be assessed by the Director of HR when he came back from leave. Mr Cull felt that the Director of HR was being rigorous in his approach to dealing with this matter, and that significant progress had been made. Therefore the priority 1 recommendation was now considered to be implemented.

Members were advised that the two outstanding priority 1 recommendations for Leaving Care remained outstanding. The Head of Service indicated that they did not have the resources to check the 200+ grant sheets that required checking due to a lack of resources. A meeting was going to be held with the Head of Service and Head of Finance to discuss.

The Committee was reminded that as at the end of the previous Audit Sub-Committee meeting, there were three priority 1 recommendations that remained outstanding relating to the audit of the adult mental health contract. The recommendations relating to the deed of variation, performance monitoring and management reporting remained open. It was now the case however, that the Deed of Variation to the contract had been returned by Oxleas and had been looked at by LBB's Legal Section. The document had been returned to Oxleas for sign off. It was therefore anticipated that this priority 1 recommendation would soon be implemented; implementation of all of the recommendations was expected shortly.

Members were notified concerning the progress that had been made in resolving the outstanding priority 1 issues that had been identified at the previous audit relating to Strategic Property. Further checks were required by Audit to see if the recommendations had been implemented, so for the time being the recommendations remained open.

The Head of Audit and Assurance reminded the Committee that at the previous meeting of the Audit Sub Committee, it was noted that two priority 1 recommendations required to be implemented regarding the way that LBB's waivers were managed. These related to the use of a central register and a standard template. Both of these recommendations had now been fully implemented.

Members noted the Departmental and Corporate Risk Registers. The Head of Audit stated that a new 'Risk' had been added to the Corporate Risk Register. This was to do with the possible detrimental impact of Brexit on service delivery. Members were reminded that it had been agreed that any 'Risk' deemed to be 'Red' (High) should be brought to the attention of the relevant PDS Committee and that the 'further action column' on the register be kept under review.

A Member drew attention to the Corporate Risk Register and to Risk 4, which was the risk that LBB would fail to manage change and maintain an efficient workforce. The first risk causes identified included '*Potential changes to working relationship with Members as we move to a smaller organisation*'. He asked for further clarification concerning this, and the Head of Internal Audit and Assurance said that he would try and find out more about this from HR.

A Member referred to Risk 18 on the ECHS Risk Register which identified housing related risks connected to the roll-out of Universal Credit. In the '*further action required*' column, an action that had been identified was to '*set up a working group with Housing Associations to explore additional measures to support residents with the roll out of universal credit*'. A Member requested

an update regarding this and it was agreed that the Head of Internal Audit and Assurance would provide the Member with an update via email.

A Member asked for an update concerning the Mortuary Contract and it was agreed that an email update be provided to the Member concerned.

(Post meeting note: an email was sent to the Member from the Assistant Director for Public Protection and Enforcement on 6th June to provide an update).

A Member referred to Risk Item 8 on the ECS Risk Register, which was 'Arboricultural Management'. This had been rated as 'Low Risk' on the Risk Register. The Member suggested that in view of the audit report on the service, the risk should be re-classified to a higher risk rating.

RESOLVED that:

- 1) The Progress Report is noted.**
- 2) The list of Internal Audit reports published on the Council's web-site is noted.**
- 3) Members note the latest position on the Council's Departmental and Corporate Risk Registers.**
- 4) Members note the list of waivers sought since November 2018**
- 5) The Head of Audit and Assurance would investigate when an audit on Arboricultural Services was last conducted and report back to the Committee.**
- 6) The matters raised in the TFM audit should be referred back to the Executive, Resources and Contracts PDS Committee for their information and scrutiny.**
- 7) The issues concerning Arboricultural Services are referred to the ECS PDS Committee for their attention and scrutiny.**
- 8) The Head of Internal Audit and Assurance would contact HR and obtain clarification concerning the comment in the Corporate Risk Register about the ongoing need to reduce the size of the organisation.**
- 9) The Head of Audit and Assurance would investigate progress made with the setting up of a working group in partnership with Housing Associations to mitigate risks associated with the roll out of Universal Credit.**
- 10) Consideration is applied to re-rating the level of risk for Arboricultural Management on the ECS Risk Register.**

Post Meeting Note:

The referrals to committees noted in resolutions 6 and 7 above, were made on 5th June.

9 ANNUAL INTERNAL AUDIT REPORT

FSD19048

The Head of Audit explained that the annual report was for Member information, its aim being to assist the Council in meeting the requirements of the Accounts and Audit Regulations 2015, which required the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance procedures.

The Head of Internal Audit and Assurance stated that Internal Audit had ensured that controls were operating in an efficient and effective manner, statutory and management requirements were being complied with, and records were completed and were accurate. He briefed Members on the number of audit days that had been allocated to each Department as well as the total number of planned tasks which was 55. He pointed out that in addition to the planned tasks for the year; some audit work had been carried forward from the previous year and completed. In addition, some unplanned anti-fraud work had also been undertaken.

Members heard that the number of actual audit days for 2017/2018 was 824, this compared with 874 for 2018/2019. In consideration of 45 internal audit reviews for 2018/2019, 28 had been given a rating of 'Substantial Assurance' and 14 had been given a rating of 'Limited Assurance'. In three cases, enough evidence was available to support grant claims requiring Internal Audit verification. Seventeen priority 1 recommendations had been implemented and 17 had been carried forward. Members were informed that there had been a total of 271 fraud referrals with 85 successful prosecutions.

A Member brought up the matter of Risk Registers and the need for training on Risk Management to be provided to new Councillors. Another Member commented that individual Members should be asked if they required the training or not.

Members noted that Internal Audit was subject to a Quality Assurance and Improvement Programme that covered all aspects of internal audit activity. This consisted of an annual self-assessment of the service, and its compliance with the UK Public Sector Internal Audit Standards.

Under the requirements of the Public Sector Internal Audit Standards (PSIAS) there was a need for an external quality assessment of the service every 5 years. A peer review was carried out in March 2016 and concluded that the section generally conformed to the required standards.

Members were pleased to note that Internal Audit still generally conformed to the PSIAS. There were no significant findings from Internal Audit's Quality Assurance and Improvement Programme that required reporting to the Audit Sub-Committee or referred to in the Annual Governance Statement.

The Head of Audit and Assurance summarised the Annual Audit opinion. He stated that from the work undertaken during 2018/19, reasonable assurance was provided that there existed a sound system of internal control; this was designed to meet the Council's objectives—the controls were applied consistently. If weaknesses were identified, these were monitored by the Corporate Leadership Team and the Audit Sub Committee until any recommendations were implemented or discharged. Members noted that assurance could never be absolute.

There would now be a need to focus on the financial challenges that were looming for 2020-2021. A need had been identified to strengthen the Health and Safety Management systems and processes across the Council as well as the need to strengthen control arrangements and effectiveness around Contract Management.

A Member commented that the final audit report for St Olave's School had a 'Limited' assurance rating. He was not comfortable that a 'final' report should have a limited rating and suggested that a follow up report would be required.

RESOLVED that Members note the report and the Head of Audit's opinion on the soundness of the internal control environment within the London Borough of Bromley.

10 ANNUAL GOVERNANCE STATEMENT

FSD19049

Members noted the Annual Governance Statement. Members heard that the Council had to approve an Annual Governance Statement (AGS). The purpose of the AGS was to review the effectiveness of the system of internal control. The AGS had to be drawn up to comply with The Accounts and Audit Regulations (England) 2015.

The AGS, after having been approved by the Audit Sub-Committee, would then need to be approved by the General Purposes and Licensing Committee. It would then be signed off by the Leader and by the Interim Chief Executive. The AGS explained how actions had been discharged and identified areas of significant concern. Members were informed that the Code of Corporate Governance had now been updated and had been agreed by the Director of Corporate Services.

RESOLVED that

1) The Audit Sub Committee note and agree the Annual Governance Statement

2) The Audit Sub-Committee agree to the changes that had been made to the Council's Code of Corporate Governance

11 DATE OF THE NEXT MEETING

Members noted that the next meeting of the Audit Sub-Committee was scheduled for 17th October 2019

12 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.

13 ANNUAL FRAUD & INVESTIGATIONS AND EXEMPT ITEMS REPORT

Members noted the Annual Fraud and Investigations Exempt Items report and commented on matters arising.

As this was a part 2 (Exempt Information) report, the full minutes for this item were recorded in the part 2 minutes.

14 EXEMPT MINUTES OF THE MEETING HELD ON 26th FEBRUARY 2019

Members noted the exempt minutes of the meeting of the Audit Sub-Committee that was held on 26th February 2019.

RESOLVED that the exempt minutes of the meeting held on 26th February 2019, be agreed and signed as a correct record.

The meeting ended at 9.52 pm

Chairman