

## **AUDIT SUB-COMMITTEE**

Minutes of the virtual meeting held at 6.30 pm on 3 November 2020

### **Present:**

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

### **Also Present:**

Janet Dawson from Ernst & Young

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

Apologies for absence were received from Councillor Stephen Wells.

#### **50 DECLARATIONS OF INTEREST**

Councillor Robert Evans declared an interest as a Governor of Saint Olave's School.

#### **51 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 15th JULY 2020--EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The minutes of the meeting that took place on the 15th of July 2020 (excluding exempt information), were noted and agreed as an accurate record.

#### **52 QUESTIONS TO THE AUDIT SUB COMMITTEE**

No questions were received.

#### **53 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE COUNCIL WEBSITE**

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

#### **54 ANNUAL AUDIT LETTER**

Janet Dawson from Ernst & Young attended the meeting to provide the update regarding the Annual Audit Letter from the external auditors.

The Committee noted that the Council's external auditors were required to issue an annual audit letter to the Council following completion of their audit procedures for the year ended the 31st of March 2019.

Ms Dawson referred to Ernst and Young's Annual Audit Letter and the relevant key points contained therein and explained that this related to the audit undertaken for year ending 31st of March 2019. The letter outlined the work that had been undertaken and the key points and issues raised. The main findings of the audit had been reported back to the General Purposes & Licencing Committee .

The Chairman referred to page 22 of the agenda which was Ernst and Young's executive summary. This highlighted issues that could impact on Ernst & Young's risk assessment--being defined as 'disclosures on going concern.' The commentary indicated that financial plans for 2020/21 and medium-term financial plans would need revision because of the impact of COVID-19. Ernst and Young considered that the unpredictability of the current environment could give rise to a risk that the Council would not appropriately disclose the key factors relating to 'going concern'. The Chairman asked for more clarity on what this meant. Ms Dawson explained that Ernst & Young were reporting on the accounts ending in March 2019, but approval for those accounts was not signed off until August 2020. Ms Dawson said that as the accounts had been signed off late, then they had to note a possible impact that Covid 19 may have had on the Council's accounts and financial position.

The Chairman enquired, (with respect to the matter of 'going concern'), if Ernst & Young would treat the Council differently from a private sector company, as the Council may have access to funds that would not be available to a private company. Ms Dawson responded that the requirements for auditors were set out in the International Auditing Standards—they applied equally to the Council as they would to a corporate entity. The Government had issued guidance known as 'practice note 10' which outlined the fact that councils should be treated as going concerns unless there were any planned legislative changes that could alter that position by ceasing the existence of a Council within the next 12 months.

Ms Dawson stated that the auditors were obligated to examine a council's financial resilience and cash flow position to assess if they were still able to undertake the various services that they were expected to undertake. The auditors also had to satisfy themselves that councils had sufficient financial resilience and cash flow to satisfy and fulfil their various financial obligations without having to borrow money or take out any loans.

The Vice Chairman referred to the problems highlighted by E&Y with the valuation of Strategic Property. He asked Ms Dawson what the situation was regarding the valuations undertaken in the previous audit by KPMG.

Ms Dawson answered that she did not know in any detail, but confirmed that E&Y had reviewed their files to understand the levels of assurance that had been noted. When E&Y looked at the information that had been supplied to

support the valuations, then it became clear that the valuations were not sufficiently robust.

The Vice Chairman referred to page 37 of the agenda documents which was the section relating to value for money. He highlighted the statement that had been made by Ernst and Young in the report, which said that E&Y were unable to conclude whether the council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending the 31st of March 2019, until they had concluded their work on the objection to the financial statements.

The Vice Chairman pointed out that the objections raised were a relatively small part of the Council's operation and he asked why Ernst & Young (on that basis), could not offer a qualified statement. He asked for an update on the current position. Ms Dawson explained that objections had been received for 16/17 and 17/18 which were being dealt with by the previous auditor. E&Y had received objections for 18/19. E&Y needed information from KPMG to assess whether there was any particular governance or management information issue that may need dealing with. It was therefore difficult for E&Y to give assurance with respect to value for money until the response from KPMG had been received. The fact that KPMG had not concluded their audit was now holding up the audit work of Ernst and Young. Ernst and Young did not wish to duplicate any work that had already been undertaken by KPMG.

The Vice Chairman raised the issue of whether or not there would be an additional fee for extra work that had been undertaken or would need to be undertaken with respect to dealing with the objections. Ms Dawson answered in the affirmative and explained that additional fees were normally applicable to councils across the board when extra work was required to deal with objections; this would be agreed by the PSAA (Public Sector Audit Appointments) if this could not be agreed by the Council and the Auditor.

A Member enquired about the mention in the report concerning an upgrade to the Council's financial system that was being considered. He asked Ms Dawson if she was confident that Bromley would have this in place by March 2022. Ms Dawson responded that this would be a question better directed to the relevant officers.

The Chairman referred to page 45 of the report which was in respect of the additional fee of £127k. He asked if Ms Dawson could remind the Committee of the correlation between fees and the Council's current financial system. Ms Dawson responded that E&Y had applications which required access to the full suite of data in the general ledger. This data needed to be pulled securely into E&Y's systems. E&Y would then drill down and analyse the data; Ms Dawson said that the Bromley system made this difficult. Resultantly, much manual drilling down and reconciliation was required along with the need to access manual records. This meant it took E & Y longer to access the data than would otherwise be the case.

The Chairman said that he did not think that the particular financial system used by Bromley was bespoke to Bromley, but that it was also used by other local authorities. He inquired if Ernst & Young had experienced similar problems when auditing other local authorities. Ms Dawson answered that the financial system used by the Council had not been updated for several years, and was not in the latest format as used by most other councils. It was for this reason that the Council was aiming to upgrade their financial system by March 2022. The Chairman pointed out that the Bromley financial systems had been the same for several years, and that Ernst and Young would have been aware of this when they quoted originally for the work.

Ms Dawson explained that there was a disconnect in the market, and that both E&Y and the PSAA had been working off incomplete information when the fees were originally agreed.

The Chairman enquired regarding the breakdown of the £127k in fees and asked how much of this was resultant from the extra work undertaken because of the problems with the valuation of strategic property. Ms Dawson confirmed that the extra work caused by the valuation issues had made up a significant proportion of the extra charges, but she was not aware of the precise breakdown on the night—however it was at least 50%. This was a matter that was being discussed with the PSAA and the Director of Finance.

The Head of Audit and Assurance briefed the Committee that the report regarding the new financial system would be going for scrutiny in November, and then to Full Council in December. He was optimistic that the new system would be implemented in a timely fashion.

**RESOLVED that the Annual Audit Letter be noted.**

**55 THE REDMOND REVIEW OF LOCAL AUTHORITY FINANCIAL REPORTING AND EXTERNAL AUDIT**

The Head of Audit and Assurance briefed the Committee on the main points of the report on the Redmond Review of Local Authority Financial Reporting and External Audit. The Committee noted that the report set down the results of the Redmond Review and that there were a number of recommendations in the report which may impact on the Council in the future.

The Head of Audit and Assurance explained that the Redmond Review was one of four reviews that had taken place recently, which examined the transparency and efficiency of external audit within the UK. It also examined whether or not external auditors had been properly identifying those local authorities that were in financial difficulties soon enough. It looked at issues like whether or not the current system was fit for purpose and if the public had lost faith in the external audit process.

The Head of Audit and Assurance referred Members to section 9.3 of the Redmond Report which stated that audit work was currently under-resourced and that to address this weakness, a fundamental review of the fee structure

was necessary. The report noted that evidence had suggested that audit fees were at least 25% lower than was required to fulfil current local audit requirements effectively. It was also pointed out in the report that the current deadline of the 31st of July was viewed as being unrealistic--there was a compelling argument to change this date to the 30th September.

Some of the new regulations could be implemented without legislation, except for the recommendation that a new Regulator be established.

The Head of Audit and Assurance explained that with regard to the recommendations in the report, it was expected that the Ministry for Housing Communities and Local Government would need to respond. It was recommended that an annual report from the external auditors should be submitted to Full Council after the 30th of September. A key recommendation that was of interest to the Audit Sub-Committee was the recommendation to consider whether or not one independent member with sufficient training and expertise should sit on local audit committees to aid in support and scrutiny. There was also a recommendation that the Head of Paid Service, the Section 151 Officer and the Monitoring Officer should meet with one of the key partners from external audit on a regular basis.

The report also recommended that a simplified breakdown of costs and services statement should be made available to the public, and that this should be subject to audit. The intention was that this would be trialled next year without being audited, and then the following year it would be published in a similar manner to other audited statements.

The Head of Audit and Assurance asked the Committee how they would like to progress the issue regarding recruiting an independent member to the sub-committee.

The Chairman asked the Head of Audit and Assurance if the extended deadline for the publication of accounts could result in reduced audit fees. The Head of Audit and Assurance responded by saying that the increased time scale allowed for the final publication of the accounts would help in terms of the competition for specialised resources and expertise by the external auditors and having more time would make things more easily achievable.

A discussion took place amongst the Committee regarding the possible merits and demerits of adding an independent member to the Committee. It was noted that a possible advantage to utilising an independent member could be that the person appointed could add experience that may be lacking and could fill a skills gap. An idea that was suggested was that the Council look at other local authorities to see how they were dealing with this matter. One of the issues that would need to be decided would be whether or not the independent member would be paid.

A Member expressed the view that a similar process had taken place with the management of the pension fund, where it had been decided to set up the Local Pension Board which (in his view) had not provided any additional value

to the Council. He expressed the view that this process would impose additional bureaucracy and expense upon the Council, and therefore he opposed the introduction of an independent member.

Another member similarly opposed the introduction of an independent member and remarked that he would definitely need to be paid and would probably need to be a qualified accountant.

The Vice Chairman enquired regarding the status of the recommendations, on whether or not they would require parliamentary approval. The Head of Audit and Assurance stated that a response would be provided in due course from the commissioning minister, and this would provide clear direction going forward. It was the case that the proposal to set up the new body which was the Office of Local Audit would require statutory approval. The adoption of an independent member would not require statutory approval.

The Head of Audit and Assurance pointed out that Bromley's Audit Sub-Committee already had many experienced individuals that were Committee members. Some council's audit committees did not possess the same level of expertise and so for some of them, the addition of an independent member may be useful. The adoption of an independent member was not compulsory or something that had to be done, it was just something that could be considered. The Vice Chairman suggested that the Committee waited for a response from the Minister.

A Member drew an analogy with what happened with the Local Pension Board and stated that this had been of little value. He had argued that Local Pension Board members should be paid, but this had been rejected by Full Council. He highlighted that it had always been difficult to recruit people to the Local Pension Board, and the fact that it was an unpaid position may have been a contributory factor to this. He was under the impression that the current constitution of the Council could facilitate the adoption of an independent member to the Audit Sub-Committee if required, without any intervention from central government.

With reference to the establishment of the new audit regulatory body, a Member remarked that it would be helpful if at the same time, measures were put in place to limit the length of time taken to deal with auditing the accounts when vexatious objections were in evidence.

The matter of training for Audit Sub Committee Members was discussed, and it was the consensus that this would be a good idea. The Chairman suggested that he liaise with the Head of Audit and Assurance and with the Vice Chairman, to discuss what could be done in terms of providing training for Audit Sub-Committee members.

**RESOLVED that:**

- 1) The report on the Redmond Review of Local Authority Financial Reporting and External Audit be noted**

- 2) **The Chairman, Vice Chairman and the Head of Audit and Assurance would discuss what could be provided in terms of training for Audit Sub-Committee members.**

## **56 INTERNAL AUDIT PROGRESS REPORT**

The Head of Internal Audit and Assurance explained that in the first part of the year members of the Audit Team had been seconded because of the Covid pandemic to work in other areas, this included working with the Shielding Team to support vulnerable people. As the number of Covid cases had dropped and restrictions eased, members of the Audit Team had been relieved of these duties, and so the Audit Team had commenced work on the internal audit recovery plan which had been shared with the CLT.

The Audit Team had been undertaking work supporting the processing of business support grants, and later with respect to the test and trace support payment scheme, and variations of support to business as a result of the three-tier coronavirus alert system. The role of Internal Audit was to advise on controls within the system and to perform assurance work when it was functioning. The Head of Audit and Assurance informed the Committee that two members of the Audit Team had been notified that because of the recent rise in Covid cases, they were being put on notice that it was likely they would be required to return back to resourcing the Covid Support Team. The Chairman and the Committee thanked the members of the Audit Team who had been seconded to Covid Support Work.

The Chairman highlighted Section 3.210 of the report which referred to work on local restriction grant payments that was due to take into effect, if and when the borough went into 'Tier 3'. The Chairman mentioned that because Bromley had now moved from 'Tier 3' into more of a full lockdown, would those services now be triggered. The Head of Audit and Assurance responded that the Audit Team were waiting for new guidance which was expected over the next few days.

A Member commented that he had been in contact with the Director of Finance to ask about fraud related to Covid business grants. The Member felt it necessary to draw the Committee's attention to the associated response from the Director of Finance, which was dated, 12th of October 2020. It was noted in the response that 3500 payments had been made and only seven of those were cases involving possible fraud which needed further investigation. This number was very low. It was the case that because of controls introduced by the Head of Audit and Assurance and his team, these controls were now recognised nationally as examples of best practice.

The Member had also been in contact with the Portfolio Holder for Resources and Contracts who commented that those councils that had initially been applauded in Parliament for the rapid distribution of money were now having to claw back money that had been paid in error. The Committee expressed their thanks to the Audit Team for their sterling work in this area, and for the

fact that the work was of such high quality that it had been recognised nationally.

The Head of Audit and Assurance stated that before he took up his position within the authority, much attention had been directed towards **contract governance and documentation**. He was pleased to note the positive changes that had been embedded within the organisation. Contracts had been signed and sealed, company guarantees, indemnities and performance bonds were retained securely and were current. Five recommendations had been made which were aimed at improving the control framework. One of the recommendations was to ensure that contractors had the correct type and level of insurance in place. A Member asked if departments referred contracts to the Insurance Officer at an early stage, to ensure that the correct insurance was in place. The Head of Audit and Assurance pointed out that it was clearly stated on contracts what the requirement was in terms of insurance obligations and the Procurement Section would flag up any issues or seek advice from the Insurance Officer if required. **The Audit Opinion for Contract Governance and Documentation was 'Reasonable'**.

With respect to the audit of **Debtors**, the Audit Team sought to establish if records were reliable, if separation of duties was evidenced, if debts were raised and coded in a timely manner, and that actions were being taken in line with the Council's debt recovery procedures. Many of these were evidenced, in place and working well, but some recommendations were made to improve the control framework. The Audit Team recommended that management should ensure that they were able to access and produce a report from systems relating to users who were able to access the system. Those who had access to the system should be reviewed on a regular basis to ensure continued appropriateness. It was also recommended that management should undertake a monthly spot check of 5% of write offs to ensure that the relevant details were retained on file. **The Audit Opinion for Debtors was 'Reasonable'**.

The Head of Audit and Assurance updated members on the audit of the **Pension Fund** and it was noted that controls to ensure that the pension fund was compliant with the Regulator's Code of Practice on Government and Administration of the Public Pension Scheme were working well. Also noted was that the sub-committee for Pensions and Investment held regular meetings which were attended by advisors from the Council's appointed pension fund advisors. Reports on fund manager performances were provided to the Council and presented to the quarterly meetings of the Pensions and Investments Sub-Committee. Three recommendations were made to improve the control framework and one of these related to the availability of minutes of the most recent meetings of the Pensions and Investment Sub-Committee, which had been delayed with Democratic Services. **The Audit Opinion for the audit of the pension fund was reasonable.**

Members were updated with respect to the audit of **Street Lighting**. One of the purposes of the audit was to make sure that revised service delivery arrangements were in place because of service delivery targets that could

have been affected by Covid 19. Recommendations were suggested to improve the control environment, which included the fact that the end to end procedure for delivery of the Street Light service should be formally documented, together with a review of the training needs of staff. It was brought to the attention of the Committee that the street lighting jobs were not routinely supported by before and after photographs identifying the asset and its location. It was suggested that consideration should be given to obtaining photographic evidence to support works orders. **The overall audit opinion for Street Lighting was reasonable.**

Members were briefed that the Troubled Families Claim had been signed off by Internal Audit. This was also the case for the Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation) Specific Grant Determination: 2019 to 2020. It was noted that the evidence seen by Internal Audit demonstrated that the grant conditions had been met with respect to the BCF Disabled Facilities Capital Grant.

Members were briefed concerning the follow up of the **Leaving Care** priority one recommendations. Previously, Internal Audit had made six priority one recommendations with respect to Leaving Care after the audit of October 2018. Two of these recommendations had been outstanding for a while. The Head of Audit and Assurance updated the Committee by saying that sample testing had been undertaken by the Audit Team in October 2020. They found that the outstanding recommendations were now being implemented and that therefore all of the priority one recommendations could now be closed.

Members were reminded that previously a priority one recommendation was outstanding with respect to **Strategic Property** and the associated £1m income generation strategy. It was confirmed that the strategic property aspect of the existing contract was being brought back in house, and so now the outstanding recommendation relating to the income generation strategy could be closed.

The Committee received an update concerning the previously outstanding priority one recommendation with respect of **No Recourse to Public Funds**. Previously, this recommendation was related to noncompliance to contract procedure rules to procure accommodation, along with the use of a single housing provider with no contractual arrangements in place; additionally there was no oversight of cost and value for money. The Committee heard that Internal Audit were now satisfied that these issues had been resolved, and that therefore the recommendation could be considered as being fully implemented.

Members were provided with an update regarding the Priority 1 recommendation for **Starters and Leavers**. There were a number of processes that needed to be completed, including the completion of an automated form that went to IT. The idea was that a streamlined process would be in place to deal with the handing in of equipment, passes, and removal from the internal email and telephone system. It was found that previously this process had not been implemented particularly well. The

implementation of a new system had been delayed because of Covid 19. Internal Audit had conducted tests related to members of staff that had left since April. It was found that IT equipment was being returned in a satisfactory manner. However, Internal Audit found that it was still the case that a high number of people nonetheless had an active account. This matter was subsequently discussed at a meeting of the Corporate Leadership Team, and the Chief Executive instructed that Directors be notified when staff left, so that they could ensure that the relevant processes were implemented correctly. The Head of Internal Audit and Assurance informed the Committee that the Priority 1 recommendations could still not yet be closed, as full compliance had not yet been achieved. It was noted that a new IT system was being developed that would hopefully make things more consistent and achieve better compliance. It was noted that the Chief Executive was not happy that this issue had not yet been fully resolved. The Chairman expressed surprise that this matter was still ongoing.

Members also expressed dissatisfaction that the issue had not been resolved, but were pleased to note that the Chief Executive was active in seeking to resolve the matter. A Member raised a concern with respect of security passes; he felt it was worrying that security passes were not being handed in and destroyed when employees left the organisation. He expressed the view that this was a security risk and highlighted the fact that in the light of recent terrorist incidences, the UK threat level from terrorism had been raised, and that public buildings were possible targets.

The Head of Audit and Assurance responded that ideally, old security passes should be handed in and destroyed. However, it was the case that when an employee left the organisation, their security pass was deactivated, so they would no longer be able to use the pass to access the building. The Member responded by pointing out that a person could still try and tailgate someone into the premises by using an old identity card, as well as the fact that the card could be used in the High Street to obtain discount in certain stores. A discussion took place regarding the possible root causes of this problem. A Member suggested that the matter of properly dealing with staff leaving the organisation should be added to a manager's objectives. For the moment the Priority 1 objection would need to remain open.

Members heard that it was previously the case that three Priority 1 recommendations with respect to **Highways Maintenance** needed implementation. One of the recommendations had been evidenced as being implemented, and could now be closed. Measures had been put in place by management to implement the remaining two recommendations, but Internal Audit had not had time to evidence if the new processes had been implemented successfully, so for now the priority one recommendation would remain open.

Members were pleased to note that the priority one recommendation regarding **schools finance** had been implemented and could now be closed.

Regarding the audit of **procurement cards**, it was previously the case that three priority one recommendations were outstanding. It was the intention of internal audit to undertake a fresh audit of procurement cards in the near future and so these recommendations would remain until the new audit was completed.

The Head of Audit and Assurance updated the Committee regarding the audit of Saint Olave's School. It was noted that previously, there were two priority one recommendations outstanding. The school had made some progress in implementing the recommendations. However, Internal Audit were planning to audit the school later in the year and so the recommendations would remain open until then.

Members were updated with respect of **waivers** and it was noted that the number of waivers was higher than usual because of COVID-19. This was because in certain cases tendering was now not feasible. The waiver process was implemented on the basis of contract regulations and the waivers had been authorised by the Director of Finance, the Director of Corporate Services, the relevant departmental director, and in some cases also by the Portfolio Holder.

It was noted that in terms of external audit, the 2018/19 accounts had been signed, been given an unqualified opinion and published on the Bromley Council website. The accounts for 2019 to 2020 had been published on the 30th of June and were now currently being audited.

With respect to VFM (Value for Money) this opinion had not yet been provided until all the work regarding the objections to the accounts had been completed. Regular updates were now being provided by KPMG, and they hoped to finalise the work by the end of November 2020. After this, Ernst and Young would review the work and the opinions that had been put forward by KPMG. Members were glad to hear that no objections had been raised for this year, and so the cycle of objections seemed to have stopped. Members noted that the scale audit fee was originally quoted as £91K, but Ernst & Young had asked for a revised fee of £188K. The Director of Finance had asked for a meeting with the PSAA concerning this.

The Head of Audit and Assurance summarized the main changes that had taken place with respect to the **Financial Regulations 2020** and additionally the **Financial Regulations for Schools 2020**.

A Member expressed concern that the focus of audits undertaken by Internal Audit was the 'protection of cash'. He expressed concern regarding some aspects of the planning process whereby a planning officer could advise a developer and then write the associated planning report. He stated that there should be a separation of duties. It looked like a practice that was not sound. The Head of Audit and Assurance responded that this was a matter that had been looked into and that LBB were complying with relevant guidance. If there were still concerns they could be looked at. The Member replied that the process did not sit well with the public and should be changed. Another

Member stated that he agreed with these sentiments, and that the process should be changed.

**RESOLVED that:**

**1--The Internal Audit Progress Report be noted**

**2--The list of internal audit reports published on the Council's website be noted**

**3--The External Audit update be noted**

**4--The Audit Sub-Committee recommend to the GP&L Committee and the Council, that the revised corporate financial regulations and financial regulations for schools be agreed.**

**57 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.**

**58 INTERNAL AUDIT FRAUD AND INVESTIGATION REPORT**

The Head of Internal Audit and Assurance presented the Internal Audit Fraud, Investigation and Exempt Items Report. This report provided an outline of the Council's counter fraud work that had been undertaken in 2020/21. The report informed the Committee regarding recent activity on fraud and investigations that had taken place across the Council.

The full minutes relating to this are detailed in the Part 2 (confidential) minutes.

The Committee noted the report and made various comments on matters arising.

**59 EXEMPT MINUTES OF THE MEETING HELD ON 15th JULY 2020**

The Committee noted the exempt minutes of the meeting that had taken place on the 15th of July 2020. The minutes were agreed as a correct record.

The meeting ended at 9.11 pm