

AUDIT AND RISK MANAGEMENT COMMITTEE

Minutes of the meeting held at 7pm on 2 November 2022

Present:

Councillor Michael Tickner (Chairman)
Councillor Robert Evans (Vice-Chairman)
Councillors Jeremy Adams, Simon Fawthrop, Julie Ireland,
Jonathan Laidlaw, Simon Jeal and
Dr Sunil Gupta FRCP FRCPATH

Also Present:

Councillor Ruth McGregor and Janet R. Dawson

122 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Kira Gabbert and Councillor Sunil Gupta attended as substitute.

Councillor Jeal proposed that Cllr Ruth McGregor be added to the Committee to fill in the seat that was vacant from the Labour Group. The Chairman allowed Cllr McGregor to sit in on the meeting but stated that formal ratification of her membership on the Committee would need to come from Full Council.

123 DECLARATIONS OF INTEREST

Councillor Simon Fawthrop declared an interest as an employee of BT.

124 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 30th JUNE EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes of the meeting held on 30th June 2022 (excluding those containing exempt information) were agreed and signed as a correct record.

125 QUESTIONS TO THE AUDIT AND RISK MANAGEMENT COMMITTEE FROM THE PUBLIC OR COUNCILLORS

No questions were received on the agenda from councillors or the public.

126 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE COUNCIL WEBSITE

Councillor Simon Jeal had given notice that he wanted to ask some questions regarding the Parks Management and Grounds Maintenance Report. He referred to the rationale behind the 75% performance target. He felt there was nothing in the report to clarify why this had been established as the appropriate performance target in this case, or how it underpinned and benchmarked against the performance indicators. He said that normally KPIs would be benchmarked against national targets or other local authority targets, but there was no indication from the report that this was the case, or how this may change if new KPIs were set. The Head of Audit and Assurance stated that to answer this question in depth would not be appropriate for the public domain. As it stood, the 75% target could only be changed either by re-tendering or by negotiation with the contractor. A proposal had been put forward to the contractor and a response was awaited. Cllr Jeal queried if the ECS PDS Committee was involved and if they had been informed of the findings of the report as this was the relevant scrutiny committee. The Head of Audit and Assurance ('HAA') said that she was not sure but would find out.

The Chairman commented that this matter was essentially a procurement issue and that it may be prudent on occasion to invite a representative from procurement to explain the rationale behind KPI's in certain circumstances. Cllr Jeal said that it was important that the Committee had confidence that KPI's were robust and had sound rationale. A Member commented that in some contracts 'improvement clauses' were included and that with respect to the Parks and Grounds Maintenance Contract it would be helpful to know if this was the case.

127 INFORMATION ITEM: BI-ANNUAL REPORT ON EXTENSIONS, EXEMPTIONS, VARIATIONS AND WAIVERS

Members noted the Information Briefing that had been published on the Council Website.

128 MATTERS OUTSTANDING --PART 1

CSD 2217

Members noted that the independent assessment of LBB's Internal Audit Team that was due to be undertaken in July had not taken place as there had been no response from the Independent Assessor. A discussion took place as to whether or not a new Assessor should be appointed. It was explained that the Council could go back to the London Audit Group and ask for a new Assessor, but this would depend on availability, or the Council could procure from an external body - the latter would probably cost in the region of £10,000. A Member expressed the view that the Assessor that had been appointed previously should be given a final chance and perhaps should receive a direct phone call to confirm. Members generally agreed that it would be sensible to try and make contact with the Assessor that had already been appointed to avoid paying extra costs, but that an appropriate timeframe should be set for this. The question was raised as to whether the Council could ask the London Group for a new Assessor without incurring any costs. It

was agreed that an update on the matter would be provided at the next meeting.

A Member asked which Committee was the most appropriate as regards the assessment of Cyber Security risks. The HAA responded and said the Audit and Risk Management Committee could scrutinise anything it wanted, but the ownership of cyber security risk would be with the Executive, Resources & Contracts Committee.

RESOLVED that the Matters Arising Report be noted and that an update be provided at the next meeting regarding the Independent Assessor.

129 INTERNAL AUDIT AND FRAUD PROGRESS REPORT

FSD22074

The new Head of Facilities Management attended the meeting to provide an update on the issues surrounding the uninterrupted power supply to the Council's data centre. He said that the problem lay not with the generator itself but with the changeover mechanism. He said the plan for resolution involved the use of a temporary generator in the next two weeks and this would need a one day shutdown. The Vice Chairman was pleased that progress was being made and that there was an end in sight, he looked forward to the final resolution of the problem which had been ongoing for some time. A Member asked if a 'lessons learnt' report would be drafted. The Head of Facilities Management responded and said the main lesson to be learnt was that the Council needed to manage its contractors properly.

A discussion took place in terms of the risks associated with the operational property review and the risks associated with commercial and non-office owned property. A Member highlighted the risks associated with not maintaining property to the required standard and said that he was struggling to find any detail in the report to indicate that property maintenance risks were being properly monitored. A Member commented that risks associated with property maintenance would be captured in the Capital Programme and reported to the Executive, Resources & Contracts PDS Committee.

A Member expressed the view that property maintenance risks in terms of the cost of maintenance and the possible associated costs of non-maintenance should be captured in the Risk Registers. The HAA agreed that this was something that should be looked at in the next audit cycle but that this should take place subsequent to the Council completing its operational property review.

Reference was made to grant assurance work that had been undertaken and the fact that assurance had been provided with respect to three grants. The Chairman asked how many grants there were and so three out of how many had been completed. The answer to this question was not available at the

meeting as Internal Audit would only undertake assurance work on grants where Chief Audit Executive sign off was required.

Members discussed blue badge fraud and it was noted that 75% of London Boroughs had a blue badge prosecution policy. LBB was ranked fourth in the country for blue badge prosecutions. It was noted that the money from any fines would be dispersed in part to the Council and the rest would pay for legal costs. It was thought that in certain cases, Civil Enforcement Officers had the power to confiscate blue badges and return them to the issuing authority. The HAA said that she would look into this matter and check with Parking Services. A Member expressed the view that blue badge fraud was despicable and wondered if it was possible to ask for compensation when the Council took the matter to court because of loss of parking revenue. The Head of Audit and Assurance said that she would explore this possibility with the Legal Department.

RESOLVED that the Internal Audit and Fraud Progress Report be noted.

130 E&Y AUDIT BRIEFING PAPER

The external auditors (Ernst & Young) were represented by Janet Dawson who explained that the purpose of the E&Y Audit Briefing Paper was to try and facilitate the completion of the 2019/2020 audit of accounts and to provide a status report. The purpose of the briefing paper was also to explain where delays in the sign off of the 2019/2020 accounts had occurred and to focus the energies of the Committee in supporting the finance function of the Council so that the audit could be completed.

Ms Dawson said that no further progress had been made recently and that E&Y were waiting for the revised statement of accounts. She referenced the national issue that was affecting all councils and causing delays at the moment and this was the matter of how councils valued infrastructure assets. Ms Dawson said that it was her understanding that the Department for Levelling Up was going to issue a statutory instrument which would allow Councils to correctly value infrastructure assets and this would allow for revised accounts to be submitted by all councils in the new year.

The Chairman wondered how councils could be expected to value assets such as roads when in reality they were a cost to the Council. Ms. Dawson replied and said the Council should record what they spend on those assets and then take into account depreciation. If the Council enhanced the road, then that should be recorded. It was the case that councils (nationally) were not recording their highway assets properly. One of the few organisations that were valuing highway assets correctly was TfL.

The Chairman wondered what the purpose was in doing this. Ms Dawson explained that there was a view in the Treasury that the Government should be able to look across the whole of government accounts and be able to understand the correct value of its infrastructure assets. She commented that

the value of this accounting process to councils was a matter of ongoing debate.

A Member referred to the external auditor's comment that if matters could not be resolved in a timely manner, then a Schedule 7 report may be issued. He referred to previous concerns that were raised by Ernst and Young with respect to the Council's lack of responsiveness to queries and also to the lack of capacity within the Council's Finance Team. He asked if Ms Dawson felt assured that these issues had been resolved. She replied that she still did not feel fully assured. E&Y were waiting for the accounts to be revised and she still had concerns at what she perceived was a lack of resource in the Finance Team, particularly as there was a backlog of work that had accrued in finalising the accounts. The Head of Corporate Finance & Accounting responded and explained what was being done by the Finance Team to deal with the backlog of work. The Member said that he would be speaking to the Director of Finance to obtain assurances that sufficient resource existed to deal with the backlog of work and to finalise the auditing of the Council's accounts.

Ms Dawson explained that at the moment her focus should be on finalising the accounts for 2021/2022, so having to still deal with the finalisation of historic accounts made matters more difficult. She suggested that the Council use additional resources and set up another team to deal with the backlog of work. This would probably be a small team of 2/3 specialists. Ms Dawson stated that if Ernst & Young used their statutory powers and made a statutory recommendation, then this would mean the matter would need to be considered by Full Council and a response received within 30 days; the matter would also be referred to the Secretary of State. The Head of Corporate Finance & Accounting assured that additional resources would be brought in as required to complete the work within a reasonable time-scale.

It was noted that the external auditors had first mentioned the possibility of the use of Schedule 7 in November 2021. Ms Dawson said that her outlook was more positive now than at that time and she was less inclined now to pursue the idea of issuing a Schedule 7, but she still remained very concerned.

It was asked why the pension fund had been red flagged by the external auditors, because the fund was 110% funded. Ms Dawson explained that this was because the opinion of the external auditors had not yet been signed off. A Member commented that the next meeting of the Audit and Risk Management Committee was not scheduled until March 2023. She asked if it would be possible to have a meeting before this, (in January 2023), so that progress could be reviewed. The Chairman said that he would be reluctant to do that just for a progress report. Janet Dawson was allowed to comment on this by the Chairman and said that she would encourage the Committee to meet earlier if they were in a position whereby the 2019-2020 accounts could be signed off. This would allow everybody to move on. The Head of Corporate Finance & Accounting agreed with this. A Member suggested that if an early meeting was going to take place it should occur just before a Full Council meeting, so that Full Council could agree to the signing off of the accounts.

Resolved that the Ernst and Young audit briefing paper be noted.

131 INTERNAL AUDIT PLAN NOVEMBER 2022 - MARCH 2023

FSD 22078

A Member asked how audits were planned ahead for the next six months against the Risk Register and why some risks that were marked as 'red' appeared to have no planned audit coverage. The Head of Audit and Assurance responded and said that red risks should have some coverage and if this coverage was not planned for the next year then it would have meant those areas were already covered. 'Homes for Ukraine' had not been subject to a formal audit, but the Internal Audit Team had been involved and continued to be involved on an advisory basis.

The HAA said that a Budget Monitoring audit was planned and that a Capital Strategy audit was in progress. A Member asked what 'BC' an 'EP' meant and it was clarified that 'BC' referred to 'business continuity' and 'EP' referred to 'emergency planning'.

RESOLVED that the Internal Audit Plan for November 2022 to March 2023 be approved.

132 COUNTER FRAUD AND CORRUPTION POLICIES

FSD22076

A Member commented that he would like to have seen a red line version of the report showing the changes that had been made against the previous policies. The HAA explained that the policies presented were a complete overhaul of the previous versions and there would be too many tracked changes. A discussion took place regarding how policies should be benchmarked. The Head of Audit and Assurance explained that there was no formal benchmarking process but she had looked at other boroughs where protocols were robust before drafting the LBB policies.

A Member asked if all departments had counter fraud and corruption classified as a risk. The answer to this was no. The Head of Audit and Assurance made the point that when drafting the new strategy she wanted to highlight that everybody had a role to play in dealing with fraud and corruption and she wanted to strengthen the role of managers in being accountable for risks in their own departments.

With respect to whistle blowing and raising concerns, a discussion took place as to whether 'policy' or 'procedure' should come first. It was noted that the Chairman and Vice Chairman could be emailed directly, but the Chairman pointed out that he believed that officers including the Chief Executive should be contacted first in most cases.

A Member asked if there was a record of how many whistle blowing allegations were made. The Head of Audit and Assurance said that only two were recorded in the last year. It was not clear if there were no concerns to raise or whether it was simply the fact that people were not raising concerns. She felt that the issue of raising concerns and whistle blowing should be publicised much better and should be part of the induction process. A Member expressed concern that having elected officials as part of the whistle blowing process could possibly hold people back from raising concerns.

It was suggested that stronger and clear language should be used in the policy so that it was clear that whistle-blowers would be protected and would be free from any sort of reprisal. Reference was made to section 1.4 of the whistle blowing policy where it had been written that employees should feel confident in raising 'genuine' concerns. It was agreed that on the next review the term 'genuine' concerns should be modified so that it would refer to concerns raised in 'good faith'. It was also agreed that a section should be added to the policy making it clear that whistle-blowers would be free from reprisals.

Members noted the Anti-Bribery Policy and there was a discussion regarding how these matters should be reported.

Members noted the anti-money laundering policy and procedure. It was commented that 8% of the money in general circulation was believed to be laundered.

RESOLVED that

- 1) The policies be noted and agreed with an amendment as outlined below.**
- 2) That the term 'genuine' concerns should be modified so that it would refer to concerns raised in 'good faith'. It was also agreed that on the next review, a section should be added to the policy making it clear that whistle-blowers would be free from reprisals.**
- 3) The proposals for International Fraud Awareness week be noted.**

133 INDEPENDENT CO-OPTED MEMBERS - AUDIT AND RISK MANAGEMENT COMMITTEE

Members discussed the possibility of co-opting independent members to the Committee. At the moment, the adoption of independent members would be voluntary as it was not something that was currently a statutory requirement. Members seemed to generally agree that up to two members could be appointed and a discussion took place as to whether or not they should be suitably qualified or whether an inquiring mind would be sufficient. The matter of who would be responsible for interviewing the independent members was discussed and it was suggested that any independent member could be

appointed for a four year term. This would involve a small amendment to the constitution and need to be approved by full Council.

The Chairman expressed the view that the length of time proposed for the appointment process in the report (1 year) was too long and he felt that an independent member could be appointed within a three month time frame. Most Members seemed to be of the opinion that suitable experience or qualifications would be preferable.

It was decided that the Vice Chairman and Chairman would agree a person specification and the matter should be progressed and be presented to the next Full Council meeting.

RESOLVED that:

- 1) Up to two Independent Members should be co-opted to the Audit and Risk Management Committee.**
- 2) The Chairman and Vice Chairman would agree a person specification document for an Independent Member of the Audit and Risk Management Committee.**
- 3) The proposal to appoint up to two Independent Members should be presented to Full Council for approval.**
- 4) If approved by Full Council, the recruitment process would begin.**

134 RISK MANAGEMENT

FSD22075

A Member expressed concern regarding a possible risk with respect to the resources allocated to the Council's Finance Team, particularly in view of the comments made by the External Auditor. The HAA said that she would consult with the Director of Finance to see if the finance resource risk should be added to the Finance Risk Register.

The Head of Audit and Assurance (HAA) explained the difference between gross risks and net risks. Net risks were those risks that remained despite the application of controls and mitigation. A Member expressed the view that given budgetary pressures, special educational needs transport should have been categorised as a higher risk. The HAA said that she would discuss this with the relevant director.

The Chairman advised Members that if they wanted to raise particular concerns they should let him know and if needed he could arrange for the relevant officer to attend the Committee. The Vice Chairman said that any matters of concern highlighted by the Audit and Risk Management Committee could be referred to the relevant PDS committee for more detailed scrutiny. A

Member said that the new 'heat maps' format for departmental risks should be provided to scrutiny committees.

It was noted that Risks were assessed by each department. Fraud was not noted on the departmental Risk Registers and it was therefore acknowledged that this was a gap that ideally should be filled.

RESOLVED that the Risk Management Report along with the new 'heat map' format for Departmental Risks be noted.

135 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.

136 INTERNAL AUDIT FRAUD AND PROGRESS REPORT-PART 2- APPENDIX E

FSD22074

Members noted the Internal Audit Fraud and Progress Report. This was a Part 2 (confidential) report as it contained commercially sensitive information. The minutes for this item are recorded in the Part 2 minutes.

RERSOLVED that the Internal Audit Fraud and Progress Report (Part 2) be noted.

137 EXEMPT MINUTES OF THE MEETING HELD ON 30th JUNE 2022

Members agreed that the exempt minutes of the meeting that was held on 30th June 2022 be agreed and signed as a correct record.

Chairman