

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

Minutes of the meeting held at 7.02 pm on 8 March 2023

### **Present:**

Councillor Michael Tickner (Chairman)

Councillors Jeremy Adams, Simon Fawthrop,  
Kira Gabbert, Julie Ireland, Jonathan Laidlaw, Simon Jeal,  
Ruth McGregor and Keith Onslow

### **Also Present:**

Hannah Lill—Senior Manager—Ernst and Young

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

Apologies were received from Councillor Robert Evans and Councillor Keith Onslow attended as substitute.

#### **139 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **140 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 2nd NOVEMBER: EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The minutes of the meeting held on the 2nd of November 2022 were agreed and signed as a correct record.

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

Two questions were received from a member of the public concerning the Net Zero report that had been published on the Council website prior to the meeting. The written questions and responses had been published on the Bromley Council website and emailed to the questioner.

#### **142 MATTERS ARISING**

##### **CSD 23041**

Members noted the matters arising from the previous meeting.

**Resolved that the Matters Arising report be noted.**

## **143        QUESTIONS REGARDING THE AUDIT REDACTED REPORTS**

As previously mentioned, two questions had been received concerning the audit redacted reports published on the Council website. These were regarding the Net Zero report; the answers to the questions had been published on the Bromley Council website and emailed to the questioner.

The Chairman asked about the redacted published report concerning Edgebury school. This was the only published redacted report where there was an outstanding priority one recommendation. There had been issues with 16 missing computers and loose financial controls. He asked if this priority one recommendation was being followed up. The Head of Audit and Assurance responded and said that the school had installed more robust processes, but the Audit Team would return in April to see how these processes were being implemented.

**RESOLVED that the redacted reports published on the Council website be noted.**

## **144        LBB DRAFT AUDIT RESULTS REPORT-YEAR ENDED 31st MARCH 2020**

Hannah Lill, Senior Manager with Ernst and Young, attended to present the report and answer questions. She was supported by Mr. David Dobbs (LBB Head of Corporate Finance and Accounting—CEX). The Committee was informed that this report had previously been presented to the General Purposes and Licencing Committee and that modifications and changes to the report had been highlighted in blue. Ms Lill directed Members to the objections to the accounts. It was noted that with respect to the 2018-2019 accounts, an acceptance decision letter had been sent to the objector and that matters relating to the closure of these accounts were progressing. Members noted that due to the outstanding objections on the 2017/18 and 2018/2019 audits, Ernst and Young had been unable to conclude on the value for money arrangements for the 2018/19 and 2019/20 accounts.

Ms Lill referred the Committee to page 9 of the Ernst and Young report which stated that E&Y had completed the audit of LBB's financial statements for the year ended the 31st of March 2020 and they had performed the procedures that were outlined in their audit planning report. Ms Lill reminded Members that E&Y had previously reported to the July 2021 committee meeting where they had highlighted a potential qualification on property, plant and equipment which had resulted from errors identified in furniture and equipment valuations. The Council had since suggested an alternative approach which addressed the matter and which would result in a Prior Period Adjustment; so this work was now substantially complete.

Ms Lill said that due to the significant amendments required to the draft audited accounts, Ernst and Young had envisaged that they would work through the revised statements with officers during February and March 2023; they would then report to the 8th of March committee with a view to signing

the financial statements later in March 2023. This would include the signing of the separate opinion on the London Borough of Bromley's Pension Fund and the 2019/20 statement of accounts.

Page 10 of the report provided a further summary of risk areas. These were summarised as follows:

- Management Override--misstatements due to fraud or error
- Incorrect capitalization of revenue expenditure
- Valuation of land and buildings
- IAS 19 valuations

Ms Lill said that Ernst and Young had concluded their work on management override and had found no indication of any mis-management involving the override of controls.

Ernst and Young had concluded their work on incorrect capitalization of revenue expenditure and a separate report had been drafted concerning this.

Ms Lill stated that as a result of material issues identified with 'furniture and equipment' and also with the depreciation of revalued assets, the Council had corrected these using Prior Period Adjustments.

Ernst and Young had agreed the LBB's pension liability disclosures to the actuarial report. They had noted an unadjusted misstatement on IAS 19 in respect of the Goodwin case. They had reviewed the roll forward of liabilities under ISA 540 estimates and the E&Y pension specialist had confirmed that the liabilities were within an expected range.

Another area of significant risk that had been audited by the external auditors was the possibility of the incorrect capitalization of revenue expenditure which could pose a risk of fraud. Two errors had been identified:

- The Council had inappropriately classified additions to assets under construction; the external auditors had extrapolated this error and the resulting projective error was £915k.
- The Council had also inappropriately capitalised VAT within certain additions, causing an immaterial error in the value of the additions.

Ms Lill stated that E&Y had challenged management assessments of the classification of expenditure as 'REFCUS'. The external auditors testing in this area was now complete and they had noted an adjustment of £3.65m in respect of IT transformation which was reclassified as PPE additions.

The next area of significant risk that the Committee was briefed concerning was the risk of error in the valuation of land and buildings. Revised valuations had been obtained for car parks and had been agreed by EY valuers as reasonable. Additionally, a number of assets had been revalued due to

incorrect floor size. Revised valuations had been received and were agreed as being reasonable by EY valuers. EY had challenged officers on the valuation of assets not revalued in year and their assessment did not highlight any material issues.

The work of the auditors with respect to the risk of error in the valuation of the pension liability had been completed previously and there was nothing further to add.

It was noted that regarding the Council's 'Going Concern' disclosure, EY had taken part in discussions with senior officers. As a result of this, a request had been sent through for supporting documentation which would corroborate the Council's going concern assertion. Ernst and Young's assessment of going concern would need to consider any revised going concern disclosures--these should show their latest financial position and also the future financial projections for the Council; these disclosures should also include full consideration of the ongoing impact of COVID-19. It was noted that this work was well progressed.

Ms Lill explained that a material error existed with respect to furniture and fittings. This was because the Council had not historically maintained a register of assets, furniture and fittings. The Council had instead made an estimate of the value of expenditure on property in year and recorded this as the asset value for this class of assets. Members were informed that these errors had been corrected through a Prior Period Adjustment (PPA). It was noted that going forward the Council had changed its accounting policy so that now any expenditure on furniture and equipment would be expensed in year.

Ms Lill drew the Committee's attention to factual Mis-Statements as follows:

- Depreciation had not been charged on assets revalued in year. This was corrected through a PPA.
- Car park valuations had been re-valued as a result of challenge on the original methodology applied by the external valuer.
- RESCUS reclassification to 'additions' resulted in an adjustment of £3.655m.
- EY's internal valuation specialists completed a review of 14 assets across a number of different asset classes. Revaluation had been made to the Churchill Theatre and the Central Library. The Churchill Theatre had been re-valued at £19.23m from a previous valuation of £5.76m. Central Library had been revalued at £10.65m, from a previous valuation of £3.51 million.

The Committee's attention was drawn to page 54 of the EY report which dealt with two recommendations from the external auditors. With respect to the 2019/ 2020 accounts, it was recommended that the Council should set out a clear timeline when queries would be responded to and escalated if required.

With respect to 2021 and beyond, the Council should ensure that they had plans in place to address the backlog of work which would include a resourcing plan and a task allocation plan. The Council should have a clear timetable for closing down the 2020/21 accounts. The Council should develop a sustainable resource strategy with appropriate skills and capacity.

The Chairman highlighted that the report stated that the contents were for the attention of committee members and relevant officers only. The Chairman queried this on the basis that the reports had been published on the Council website with the aim of transparency. Ms Lill responded that EY were aware of this, but the main concern was that the reports should not be relied upon in terms of assurance by third parties.

A discussion took place concerning the definition of 'materiality' and of the 'pervasive errors' that were referred to in the EY reports. It was hoped that the financial statements could be signed off by the end of March 2023. A discussion also took place regarding the difference in valuations for the Central Library and the Churchill Theatre.

A Member expressed concern regarding a lack of resource in the Finance Team. The Head of Corporate Finance and Accounting provided assurance that additional resources had been allocated to the LBB Finance Team to help clear the backlog. Ms Lill said that she was aware of additional resource that had been allocated to the Finance Team and that this had speeded up the finalisation of the Pension Fund accounts. She commented that the real test would come with respect to the finalisation of the 2021 audit.

A Member asked Ms Lill what other local authorities were doing differently with respect to the processing of their accounts and what Bromley could do better and improve. Ms Lill responded that LBB required a fully resourced finance team that could resolve and close down queries quickly. It was the case that the LBB Audit was large and complex. Members of the LBB Finance Team needed expertise and the willingness to work as a team.

It was queried if there were other local authorities in a similar position to Bromley. Ms Lill responded and said that there were three other local authorities who were late in their submissions. Delays had been caused across the board because of the valuation of infrastructure assets.

A Member asked for an update regarding the 'going concern statement'. The Head of Corporate Finance and Accounting answered this question, commenting that a submission had been sent to EY concerning the Council's various financial projections. The Council was satisfied that there were no going concern issues and no financial risk. The statement was normally shared directly with the external auditors and not to the Committee, but it could be shared with the Committee if required.

**RESOLVED that the LBB Draft Audit Results Report (Year ended 31<sup>st</sup> March 2020) be noted.**

**145        LBB    EXTERNAL AUDIT PLANNING REPORT: YEAR ENDED  
              31 MARCH 2021**

Ms Lill highlighted the principal areas of focus and risk :

- Risk of fraud in revenue and expenditure recognition
- Misstatements due to fraud or error
- Potential misstatements in property, plant and equipment and investment properties valued at fair value due to significant judgments involved
- Incorrect valuation for pension liability due to significant judgement involved
- Going concern disclosures
- Incorrect accounting treatment of Covid grants
- Inappropriate infrastructure asset recognition and derecognition

Ms Lill stated there were two new risk areas:

- Incorrect Accounting Treatment of Covid Grants
- Inappropriate infrastructure asset recognition and derecognition.

The latter was a national issue affecting all authorities that held infrastructure assets. Ms Lill said that EY were collaborating with officers to implement the current CIPFA work around, until the Council were ready to move forward in line with the new code.

Members noted that Planning Materiality had been set at £10.52m. Performance Materiality had been set at £5.1m and Audit Differences had been set at £0.52m.

The report set out EY's planned work on the Council's VFM arrangements. EY were now auditing under the Code of Audit Practice 2020. This meant that they would no longer be providing a VFM conclusion. At the end of the audit a commentary would be issued on the VFM arrangements. This would be a public document and so would be discussed with officers prior to publication.

Ms Lill referred Members to Appendix A on page 39 of the EY report. This noted the various proposed fees for the 2020/21 and 2019/20 audits. Additional fees were mentioned in the commentary and Ms Lill stated that these would be discussed with officers, presented to the PSAA and then brought back to the attention of the Committee.

A discussion took place concerning the administration of Covid Grants and the assessment of pension liability risk. Ms Lill said that pensions liability was a significant estimate within the finance statement and EY were obligated to ensure that these statements were reasonable and supportable. This was the same for all local authorities. The Chairman of the LBC Pension Committee was present and he stated that the Council's pension scheme was 120% funded.

**RESOLVED that the LBB External Audit Planning Report for Year Ended 31<sup>st</sup> March 2021 be noted.**

**146 UPDATE REGARDING INDEPENDENT MEMBERS**

The Chairman stated that two candidates had been interviewed for the position of Independent Member. It was intended that a further three candidates would be interviewed in early April. It was hoped that they would be appointed and ready to sit on the committee for the July meeting.

**RESOLVED that the Independent Member update be noted.**

**147 INTERNAL AUDIT AND FRAUD PROGRESS REPORT**

**FSD23018**

The Head of Audit and Assurance updated the Committee regarding the External Quality Assessment and said that the assessment was now going ahead. The External Assessor would be meeting the Head of Audit and Assurance, the Director of Finance, Chief Executive and the Chairman of the Audit and Risk Management Committee. A follow up report regarding the External Quality Assessment would be provided to the next meeting of the Audit and Risk Management Committee.

Members noted that the report provided an update on progress against the 2022/2023 Internal Audit Plan. A Member referenced the two audits which had been classified as having a 'limited assurance', these were the Housing Allocations audit and the Parks and Green Space audit. The former had not been published recently with the redacted reports as it contained part 2 information.

A discussion took place regarding payments made outside of the financial system. The Head of Audit and Assurance said these payments were rare and limited in number, but she would endeavour to find out more about these payments and report back to the Committee. The Committee was pleased to note that Bromley was the 4th highest prosecutor of blue badge fraud in England. The Chairman mentioned that previously, enforcement officers used to seize blue badges where appropriate and in his view it was time to encourage them to do so once again. A Member commented that enforcement officers should be encouraged to confiscate blue badges where necessary. A Member queried how misuse of the blue badge would be determined. Another Member expressed concern lest victims of blue badge fraud be punished unfairly due to the actions of others.

A Member referred to the appendix and the reference to possible changes to the delivery of SEN Transport. She asked that in future, the dates that work was undertaken could be added to the summary.

A Member referenced Covid Business Support Grants and said that he had forwarded some information to officers regarding a potential fraud. He had not received an update regarding this. The Head of Audit and Assurance responded that if he provided the details to her outside of the meeting, she would investigate this further.

**RESOLVED that a recommendation be made to the ECS PDS Committee to consider re-instating the previous practice of confiscating Blue Badges.**

**148 INTERNAL AUDIT PLAN AND CHARTER 2023-2024**

**FSD 23019**

Members noted the Audit Charter and the fact that it was best practice to review this every year. A Member asked what was being planned in terms of property valuations and property maintenance, so that problems that had occurred previously would not re-occur. It was suggested that insurance could be managed elsewhere to avoid audits of this area being sourced externally. Claims handling was currently outsourced to LB Sutton. It was noted that there was extensive reporting regarding the insurance service to ER&C PDS.

A discussion took place regarding Risk Appetite and Risk Tolerance and what levels the Council was prepared to accept. A Member suggested that a statement regarding this would be useful. It was noted that PDS committees had a responsibility to scrutinise risk.

**RESOLVED:**

- 1) That the April to October 2023 Audit Plan be approved.**
- 2) That the Internal Audit Charter be approved**
- 3) That the proposed suite of Key Performance Indicators for 2023-2024 be approved.**

**149 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.**

**150 MATTERS OUTSTANDING: EXEMPT INFORMATION**

**CSD23042**

Members noted the matters outstanding that were recorded in the exempt information matters arising report.

**RESOLVED that the Part 2 Matters Outstanding report be noted.**

**151 INTERNAL AUDIT AND FRAUD PROGRESS REPORT--PART 2**

Members noted the Part 2 Internal Audit and Fraud Progress Report. As this report contained exempt information, the minutes are noted in the Part 2 minutes.

**RESOLVED that the Internal Audit and Fraud Progress report (Part 2) be noted.**

**152 EXEMPT MINUTES OF THE MEETING HELD ON 2nd NOVEMBER 2022**

Members noted the exempt minutes of the meeting that was held on 2<sup>nd</sup> November 2022.

**RESOLVED that the exempt minutes of the meeting that was held on 2<sup>nd</sup> November 2022 be noted.**

The meeting ended at 8.42 pm

Chairman