

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 5 April 2016

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor Alan Collins (Vice-Chairman)
Councillors Ian Dunn, Peter Fortune, William Huntington-
Thresher and Keith Onslow

Also Present:

Sara Bowrey, Nigel Davies and Councillor Pauline
Tunncliffe

25 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Mr Dan Jones, and Mr Nigel Davies attended as alternate.

Apologies were also received from Councillor Stephen Wells.

26 DECLARATIONS OF INTEREST

Councillor Onslow declared an interest by virtue of his employment with Zurich Insurance Company, and with the Royal Borough of Greenwich.

27 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 1st DECEMBER 2015--EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The public minutes of the meeting held on 1st December 2015 were agreed.

28 QUESTIONS FROM MEMBERS OF THE PUBLIC OR COUNCILLORS

Questions were submitted for oral response by Mr Bill Miller, Chairman of the Avalon Area Action Group.

The questions and answers are appended to the minutes as Appendix A.

29 MATTERS OUTSTANDING FROM THE LAST MEETING--PART 1

Report CSD 16053

The Committee noted the report on part 1 matters arising from previous meetings. The Chairman advised Members that the matters arising had either now been completed, or were to be expanded upon in the part 2 section of the meeting.

RESOLVED that the Matters Arising report be noted.

30 INTERNAL AUDIT PROGRESS REPORT

CEO 16015

The Internal Audit Progress Report informed Members of recent audit activity across the Council.

The Committee were updated concerning the Leaving Care (Payments to Clients) Audit. A previous audit had resulted in 9 Priority 1 recommendations, and at the last cycle, two of these were outstanding; these were Pathway Plans and Purchase Cards. Pathway Plans had now been actioned in 89% of cases, against a target of 85%, and this recommendation was now considered to be implemented. With respect to Purchase Cards, this recommendation was considered to be partially implemented, and it was acknowledged that management were taking the actions required to resolve the issues. The Committee were also informed that all 8 priority one recommendations in respect of the Family Placements audit had now been implemented.

The Committee were updated concerning the audit of Domiciliary Care. In the past, there had been two priority one recommendations. The first issue was relating to service agreements closed on the wrong dates, or non-closure. The second audit recommendation was around the number of hours that had planned to be delivered--not being reconciled to planned hours. The Committee heard that there were still problems in both these areas, and so both recommendations remained open.

The Audit of rent arrears in Temporary Accommodation was originally undertaken five years ago and was ongoing. As at March 2016, the total number of people in temporary accommodation stood at 1074, and the level of rent arrears was £3.58m. Reconciliations had begun with Orchard and Shipman, and this was expected to be completed by the end of the financial year. As the rent arrears remained high, this recommendation remained outstanding.

The Head of Internal Audit updated the Committee concerning the issue of Creditors, and the problem of “retrospective” orders. An audit that took place between October 2015 to December 2015, revealed that 2,155 retrospective orders were raised during that period. This was an increase from the previous quarter, and it was noted that 44% of these orders were related to Housing. The new housing system would not be available for some time, but in the interim, Internal Audit had agreed Housing’s proposal to streamline payment

procedures, and it was hoped that this would reduce the volume of retrospective orders related to Housing.

The Head of Internal Audit summarised the main areas of audit activity, including the list of internal audit reports that had been published. Members were also advised of the six monthly update on new waivers sought attached as Appendix B in the committee report. The Head of Internal Audit advised that there were no concerns with the list of waivers.

An update was provided on VFM around the Youth Offending Service. The YOS was in the process of implementing an improvement plan that had been recommended subsequent to the inspection of the YOS by HM Inspectorate of Probation in February 2015. This was being scrutinised by the Youth Justice Board. It was considered that the implementation plan was partially implemented, and moving in the right direction.

The Head of Internal Audit updated the Committee concerning the matter of Public Sector Internal Audit Standards. It was explained that LBB had joined a London wide assessment external assessment group that would be involved with peer reviews of internal audit systems. LBB had been peer reviewed in March 2016 and the outcome of this review was awaited.

The Head of Internal Audit asked the Committee to note that the Internal Audit Budget had to achieve savings of £80k. This was going to be achieved by deleting two part time posts, and by the removal of the £40k for buying in services from the London Borough of Wandsworth. The £40k cut in the budget would reduce the ability of internal audit to buy in services.

With respect to Risk Management, it was highlighted that a 30 minute interactive online training package was being developed after consultation between Zurich and Learning and Development. It was hoped to launch the training package in July 2016. The Committee noted the new Risk Matrix that was attached as Appendix C. Members had raised queries on some classifications such as banking failure and IT systems failure (in the light of recent events) and had asked that 'Significant and High Risk ' be reviewed.

A Member referred to the table detailing "significant and high risks" and specifically to the possible risk posed by a loss of parking income. This was as a result of proposed Government changes to Parking Regulations that would lead to a major loss of parking income from fixed and mobile CCTV enforcement.

A Member referred the Committee to section 3.34 of the report, which outlined the 7 key risks that had been identified by the Corporate Risk Management Group. One of the risks had been identified as "Business Continuity and Emergency Planning". The Member expressed the view that Business Continuity and Emergency Planning was not normally classed as a risk.

The Committee were briefed that a new Annual Governance Statement would be presented to the meeting in July 2016. Work on this would be co-ordinated by the Corporate Risk Management Group.

RESOLVED

- (1) that the Internal Audit Progress Report be noted**
- (2) that the list of Internal Audit Reports published on the web be noted**
- (3) that the list of waivers sought since October 2015 be noted**
- (4) that the audit of VFM arrangements be noted**
- (5) that the arrangements around risk management be noted and that the high and significant risk spreadsheet in Appendix C be reviewed**

31 ANNUAL INTERNAL AUDIT PLAN 2016-17

CEO 16014

The report was submitted to inform Members of the Internal Audit Plan for 2016-17.

The Head of Internal Audit summarised the primary objectives of the Internal Audit Plan, as well as the methodology that would be involved in progressing the audit plan.

It was pointed out that the audit coverage for 2016/17 was going to drop from 830 days to 811 days due to the need to make budget savings. This would mean that the audit services that had previously been commissioned from LB Wandsworth would now be deleted. Similarly, it was the case that the vacancy of 0.6fte that internal audit had been holding would also now be deleted, as well as the part time post for a Risk Management Officer.

It was envisaged that effective communication would be maintained with the new external auditors to ensure that LBB's audit resource would be effectively managed and targeted.

It was highlighted that Internal Audit had been in discussions with the Commissioning Board to agree the best use of Internal Audit time, and out of these discussions a 40 day block of Chief Executive's Commissioning had been agreed.

A Member expressed satisfaction that 20 days had been allocated to the auditing of Contract Monitoring. However, he questioned the reasoning behind proposals to audit the Commissioning Board, expressing the view that this may be a case of "checking the check."

A Member asked when the “Early Years” audit was being done. The Head of Internal Audit stated that a precise time-frame had not been established, but that it was likely to commence at the start of the autumn term. The Member asked when an “Early Year” audit was last undertaken, and the response was that the audit would have taken place approximately two years ago.

A Member noted that 10 days had been allocated to the audit of the Community Infrastructure Levy (CIL). He expressed some concern that businesses may try and claim waivers to the CIL to avoid paying the levy, and that this was something that would need to be looked at closely.

A Member noted the 10 days allocated to the Biggin Hill audit, and wondered how far back this would go. The Head of Audit advised that an element of the 10 days would be allocated to rental income received from the Glades at the request of management.

A member had also requested that some time be allocated to reviewing SPV (Investment Special Purchase Vehicle which acquire housing stock for temporary accommodation) highlighted in the External Auditor’s Annual Plan that was on the agenda. The Head Of Audit advised that this would be taken into consideration.

RESOLVED that the Annual Internal Audit Plan 2016-2017 be noted.

32 EXTERNAL AUDIT ANNUAL PLAN 2016-17

Report CEO 1619

Mr Phil Johnstone and Hannah Andrews from KPMG attended the meeting to update on this report, and to answer any questions. KPMG had been appointed as the new external auditors. The report had been submitted for the attention of the Audit Sub Committee so that they could review the external auditor’s annual plan arrangements for 2015-2016.

Mr Johnstone commenced by outlining the matters of Materiality and Significant Risks. It was noted that materiality for planning purposes had been set at £9.3m for the Council and £7.4m for the Pension Fund. (In determining the relevance of financial information, regard needs to be given to its materiality. Information is said to be “material” if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements).

Significant Risks had been identified as:

- Risk of fraud in revenue recognition
- Management override of controls
- Valuation of property, plant and equipment
- Valuation of pensions, assets and liabilities

The Chairman noted the VFM significant risks which had been identified as Financial Resilience and the Better Care Fund. He was pleased to note that the external audit fee had reduced by 25%.

The Committee were impressed with the information contained in the KPMG Local Government Budget Survey Document. The Chairman referred the Committee to section 7 of the document relating to savings measures that local authorities relying on for 2015-16 and beyond. The most popular measures were:

- Reducing Back Office spend
- Rationalising property and assets
- Working in collaboration with other bodies
- Purchasing Investment properties to generate income

Mr Johnstone commented that Councils were facing financial challenges, and that in many cases, instead of just looking at budget cuts, they were looking at ways to better use existing resources. A Member expressed the view that the KPMG Local Government Budget Survey be brought to the attention of the Executive and Resources PDS Committee.

A Member queried if academisation was on the radar for external audit, and the answer to this was no, there was a greater risk in the areas of health and social care. Concerning the BCF fund, Mr Johnstone expressed the view that developments in this area would be interesting, and that the proper utilisation of BCF funding was made easier when synergies existed between the local authority and the local CCG. He felt that any risks were greater at CCG level. A discussion took place about reserves, including the General Fund and Ear Marked Reserves, in addition to usable and unusable reserves. It was noted that unusable reserves could only be accessed by authorisation from the Secretary of State.

A Member queried the level of risk attached to the use of an Investment Special Purpose Vehicle (SPV). The KPMG report had noted that there were risks attached around the accounting treatment of the SPV, and the associated “gifting” to the pension fund. Mr Johnstone expressed the view that he did not anticipate that the SPV would impact adversely on the accounts. The Committee agreed that going forward, the mechanism for auditing SPV’s should be clarified, along with who would be doing it.

A Member referred back to the Local Government Survey document and asked if KPMG would be able to feed back to LBB with any useful or relevant experiences from other local authorities. Mr Johnstone responded that KPMG would be in regular dialogue with the Chief Executive and the Director of Finance.

RESOLVED:

(1) that the KPMG Local Government Budget Survey document be brought to the attention of the E&R PDS Committee

(2) that the mechanism for auditing SPV's should be clarified, along with who would be doing it.

(3) that the External Auditor's arrangements for the 2015-2016 Audit Plan be noted

(4) that the materiality limits set out in the plan be noted

(5) that the reduction in the audit fee by 25% be noted

(6) that the VFM arrangements set out in the plan be noted

(7) that the KPMG Local Government Budget Survey document be noted, along with the comments made by the Committee with reference to the document

33 QUESTIONS ON THE REDACTED REPORTS PUBLISHED ON THE WEB

No questions concerning the redacted reports published on the web had been received.

34 EXTERNAL AUDIT- GRANT CERTIFICATION REPORT

Report CEO 1620

The report had been submitted to inform members of the findings of the External Auditor's report on the annual certification for 2014/15.

Katy Elstrup from PWC attended to answer any questions that the Committee wished to ask concerning the External Audit Annual Certification Report 2014/15.

The Committee noted minor errors that had been identified in the Housing Benefit Subsidy Claim for the year ending 31st March 2015.

The Chairman asked some questions around subsidy cap rules, and Councillor William Huntington Thresher requested some further detail from Ms Elstrup around the issues of rent allowances and other matters. Ms Elstrup promised to respond in writing the following day.

It was noted that this was the last report that LBB would receive from PWC as new External Auditors had been appointed.

RESOLVED that the Grant Certification report be noted.

35 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.

36 EXEMPT MINUTES OF THE MEETING HELD ON 1ST DECEMBER 2015

The exempt minutes of the meeting held on the 1st December 2015 be agreed

37 MATTERS OUTSTANDING FROM THE PREVIOUS MEETING- PART 2

Report CSD 16062

Members noted and commented on progress with matters arising for the previous meeting.

The full minutes of this item are noted in the part 2 minutes.

38 EXTERNAL AUDIT-UPDATE ON OBJECTIONS TO THE ACCOUNTS

Report CEO 1621

This report was presented to the Committee as a request had been made to provide an update on the objections to the accounts, and explanations on the costs. Ms Katy Elstrup from PWC attended to provide the update and answer any questions.

The full minutes are detailed in the part 2 minutes.

The Chairman thanked Ms Elstrup for attending, and for updating the Committee.

RESOLVED that the update on the objections to the accounts be noted.

39 INTERNAL AUDIT FRAUD & INVESTIGATION REPORT

CEO 16016

The report was presented to the Committee to inform Members of recent Internal Audit activity on fraud and investigations across the Council and provided updates on matters arising from previous sub committee meetings.

The full minutes of this item are detailed in the part 2 minutes.

RESOLVED that the Internal Fraud and Investigation Report be noted.

40 DATE OF THE NEXT MEETING

The date of the next meeting was confirmed as 6th July 2016.

Appendix A

The Meeting ended at 10.00 pm

Chairman

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Oral Questions to the Audit Sub Committee—5th April 2016

The following questions have been submitted by Mr Bill Miller (Chairman of the Avalon Area Action Group) for oral response:

(1) Will the Committee undertake an investigation into the tendering process for the refurbishment work and the award of the contract to Orchard and Shipman; when will this be completed?

(2) Will the Committee undertake an investigation into the tendering process and the cost of replacing the boilers at the Manorfields site; when will this be completed?

(3) Will the Committee undertake an investigation into the appointment of Orchard and Shipman to manage the Manorfields facility; when will this be completed?

ANSWER:

Orchard and Shipman have been the Council's managing agents for temporary accommodation since 2011. The Executive report of 14th October 2015 sets out both the business case and agreement for Orchard and Shipman to manage Manorfields under the wider temporary accommodation management agreement. The temporary accommodation gateway review went before Executive on 13th January 2016. This report agreed to enter into a new contract with Orchard and Shipman for the management of temporary accommodation, including both Bellegrove and Manorfields. Both reports were considered through Care Services and E&R PDS committees prior to the Executive meeting.

A public report will be published six months after the opening of Manorfields to provide an update on how the facility is operating.

Supplementary Questions:

1- Does the Committee recognise that it has abused its own processes?

Answer:

The Audit Team are looking at the various issues, and this is ongoing. A report will be published in due course.

2- Councillor Tunncliffe is unhappy with the cost of the refurbishment. Where is this issue being discussed?

Answer:

The issue is being discussed in the Part 2 agenda. It is hoped that a final report will be available in July, and subsequently published. The Audit Team are looking at all the issues.

3- It looks as though the number of people in temporary accommodation is now in excess of 1,000 and that the level of rent arrears is now £3.87m. Reconciliations have now begun with Orchard and Shipman—Is this an example of a good management agent?

Answer:

Reconciliation is an ongoing process. The results of the various ongoing investigations will be published in due course. The Audit Sub Committee will not hold back on transparency.