

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 21 June 2017
(Draft Extract)

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor William Huntington-Thresher (Vice-Chairman)
Councillors Ian Dunn, Peter Fortune and Tony Owen

7 ANNUAL AUDIT REPORT Report FSD 17049

The Annual Audit report was presented by the Head of Internal Audit who reported that this year the Director of Corporate Services had had input into the Annual Governance Statement. One of the main areas for concern this year was contract monitoring issues.

This was the annual report of audit activity that took place during 2016/17. The report was primarily for Member information and was also intended to assist the Council in meeting the financial management and internal control requirements of the Accounts and Audit Regulations 2015. Part of the overall arrangements required the Chief Executive and the Leader to sign an Annual Governance Statement.

Included in the report were highlights of the performance of the Internal Audit function, a summary of the audits undertaken and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

Members noted that schools that were audited were included within the report.

Members were requested to note the report and to approve the Draft Annual Governance Statement.

The Committee were reminded that Internal Audit's main objective was to assist management and Members in minimising risks, maintaining high standards and continuously improving service delivery through independent appraisal, review and advice. The report outlined the methodology employed to achieve these objectives.

The audit reviews looked at the controls in place and assessed how effective these were, together with associated risks. The Committee were informed that whilst it was Internal Audit's aim to complete the 2016/17 plan, this had been adjusted as a result of unexpected levels of unplanned activity including fraud and investigative work and. To redress some of the shortfall, internal audit

had bought in to the internal audit service of Mazars through the Framework Agreement operated by LB Croydon. Mazars undertook six audits from the audit plan--totalling 67 days

Internal Audit completed the majority of high risk audit reviews scheduled in 2016/17 and received positive feedback from the client departments with an overall average of over 4 out of 5 for the audit satisfaction surveys. Overall, after allowing for a number of audits that were either postponed or cancelled due to management requests/ organisational change, ad hoc investigations and sickness, Internal Audit had completed about 80% of the Plan against the annual performance indicator requirement of 90%. There were seven audits where work was still in progress.

The Committee were advised that during 2015/2016, 862 audit days had been undertaken, and this included fraud and investigative work as well as mainstream audit work.

All internal work would result in a formal report to management. It was mentioned that final reports were agreed with clients prior to being released and were followed up systematically in the following financial year; unless there were priority one recommendations which would be followed up within six months. All audit reports (apart from follow ups and investigations) included an opinion from internal audit based on their findings.

The Head of Audit explained the four different assurance levels that were provided post audit, these were:

- Full Assurance
- Substantial Assurance
- Limited Assurance
- No Assurance

The Committee were notified that audits had been undertaken on 8 schools that were still maintained by Bromley, and that these audits had resulted in 41 recommendations.

For clarity, it was noted that there were follow up reviews for 6 schools that had been audited in 2015/16; of the 22 recommendations raised, 21 were fully implemented and 1 partially implemented and therefore re- recommended.

The main internal audit issues in 2016/17 related to contract management and monitoring, and it had been decided that a major focus of the 2017/18 plan would be to audit contract monitoring controls.

The Committee were advised that during 2016/17, 8 schools were audited, and this had resulted in 41 recommendations. Follow up reviews had been undertaken on 6 schools that had been audited in 2015/16, and 21 of the 22 recommendations had been implemented.

With reference to the Annual Governance Statement, the Head of Internal Audit confirmed that adequate action plans had been agreed for all areas of identified weaknesses and Internal Audit would continue to apply close scrutiny to ensure that all current priority control weaknesses were addressed by management.

The Risk Management process had been reviewed as a result of the Ofsted report into LBB Children's Services in 2016. The various procedures put in place as a result were explained to the Committee.

Zurich had been commissioned to carry out a check and challenge process on the risk registers for the three Directorates.

The control issues that had been highlighted in the audit reports were divided into the following categories:

- Organisational – the controls that provide the framework under which the system of other controls can operate effectively and efficiently.
- Financial – the system of controls that ensures the accuracy and adequacy of financial data and safeguards the organisation against possible loss due to fraud or error.
- Operational – the system of controls that ensures the efficiency and effectiveness of operations, ensures the organisation's objectives are met (and services delivered) and also safeguards the organisation against any reputational damage or other loss.
- Compliance controls – the system of controls that ensures that the organisation complies with all relevant legislation, best practice guidance and internal policies with respect to the conduct of the business.

Members noted a table and a pie chart which displayed the various internal audit recommendations for 2016/17 by type. The main recommendations were:

- a. Supervisory and Monitoring issues-21%
- b. Lack of Supporting documents—13%
- c. Insufficient accounting records in schools—12%

The Portfolio Holder for Education Children and Families requested that in future a further breakdown of the number of audit days for schools be broken down to enable an analysis of the implications of the acadamisation agenda.

In response to a question the Head of Audit confirmed that all Priority 1 recommendations were assigned an owner however, there was often a number of influences on the implementation of recommendations.

With reference to the Annual Governance Statement, a Member suggested that within the Statement it should be reflected that one of the Policy Development and Scrutiny (PDS) Committees had become a Select Committee. With reference to the Inspection of the Bromley Youth Offending

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Service by HM Inspectorate of Probation, the Portfolio Holder for Education children and Families confirmed that the report was no longer subject to Purdah.

RESOLVED that the Annual Governance Statement be noted and approved.