AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 26 February 2019

Present:

Councillor Neil Reddin FCCA (Chairman)
Councillor William Huntington-Thresher (Vice-Chairman)
Councillors Gareth Allatt, Ian Dunn, Robert Evans, Christopher Marlow and Tony Owen

Also Present:

Colin Brand, Deepali Choudhary, Barrie Cull, Janet R. Dawson, David Hogan and Linda Pilkington

26 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

No apologies had been received.

27 DECLARATIONS OF INTEREST

There were no declarations of interest.

28 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 14th NOVEMBER-- EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

A Member referenced the section of the minutes that mentioned Direct Payments, and the possibility of the provision of a payment card that could be used to purchase services. The Member asked for an update concerning this. The Head of Internal Audit promised to look into the matter and provide an update in due course.

RESOLVED that

1) The Head of Internal Audit provide an update concerning whether or not payment cards had been introduced for service users in receipt of Direct Payments.

2) The minutes be agreed and signed as a correct record.

Post Meeting Note:

The update relating to Resolution 1 was disseminated to the Member that asked the question on 20th March 2019:

'Internal Audit have met with the Project Manager – Direct Payments Lead (PM-DPL) to establish the work done to date to improve the current direct payments process and secondly to evidence progress to implement a pre-payment card for direct payments.

The Direct Payment Board, Chaired by the Director of ASC, agreed the business plan for prepayment and the Gateway Report to proceed to procure has now been signed off by the appropriate authorising officers. It is proposed that a three year pre-paid card contract with an option to extend for a further year, will be awarded to start in May 2019'

29 QUESTIONS TO THE AUDIT SUB COMMITTEE FROM COUNCILLORS OR MEMBERS OF THE PUBLIC

No questions had been received.

30 MATTERS ARISING REPORT---PART 1

CSD 19032

The matter relating to Zurich developing a cyber insurance policy was noted. The Head of Audit advised the Committee that a new Insurance Manager would be appointed soon and would commence duties in March. The view of the new Insurance Manager on cyber insurance cover was that existing policies were not well developed. The new Insurance Manager would advise Internal Audit further in due course, subsequent to his appointment.

The Director of Regeneration (Mr Colin Brand) provided an update concerning progress made with the development of the Civic Centre Accommodation Strategy. Members were informed that the work to implement the strategy had gone out to tender. All of the tenders were due back during the second week of March. The contract would be awarded by the end of March and work would then commence in April.

A Member requested that more detail be added to the 'estimated completion' column in the Matters Arising report.

A Member expressed dissatisfaction that the matter relating to the objections to the accounts had still not been closed and asked when this was likely to happen. Janet Dawson (Partner-Ernst and Young) came to the table to provide a response. She explained that this was a matter that was historically still being managed by KPMG. She hoped that KPMG would now move swiftly to complete this work and bring the matter to a conclusion.

RESOLVED that the Matters Arising report is noted.

31 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE WEB

No questions had been received concerning the Internal Audit reports that had been published on the Bromley Council website.

32 EXTERNAL AUDIT PLAN 2018-2019

Ms Dawson attended the Committee to answer any questions Members had regarding the External Audit Plan for 2018-2019.

Members were asked to note the External Auditor's arrangements for the Audit Plan for 2018—2019. Members were also being asked to note and agree the materiality and reporting levels that were detailed in the Plan. Members were also being asked to note the significant risks outlined in the Plan, along with the Value for Money (VFM) arrangements that had been set out. It was noted that Ernst & Young LLP were also responsible for developing a similar plan for the Pension Fund which would follow.

Ms Dawson referred the Committee to page 5 of Ernst & Young's Audit Planning Report for the year ending 31st March 2019. She highlighted and explained the four main areas of risk that had been identified:

- Misstatements due to fraud or error—especially associated with the possibility of management overriding controls
- Risk of fraud in revenue and expenditure recognition, through the inappropriate capitalisation of revenue expenditure
- Inherent risk associated with Asset Valuations
- ISA 19 valuations relating to pensions liabilities

(ISA refers to the 'International Standards on Auditing' and are auditing guidelines from the Financial Reporting Council).

The Committee heard that risks associated with pensions were complex and so actuaries would need to be involved in the risk assessment process.

Ms Dawson explained that in addition to the risks mentioned above, two areas of audit focus had been identified.

- Spring Capital Loan
- New Accounting Standards—IFRS 9 & IFRS 15

Members were briefed concerning the Materiality limits which were as follows:

- Planning Materiality--£9.59m
- Performance Materiality--£7.19m
- Audit Differences set at--£479,500

Ms Dawson highlighted the figures and asked if the Committee could confirm whether or not they agreed with them. The Committee was happy to agree with the proposed Materiality limits and the Audit Differences figure. The Committee was pleased to note that there had been a reduction in the external audit fees. A discussion took place about the issue of 'Independence' and how important it was that the External Auditors were independent from both Members and officers.

Ms Dawson reported that there was still a Member who had not made an independence declaration. She asked if this could be followed up as a matter of urgency.

Post Meeting Note:

This matter was reported by the Committee Clerk to the Head of Democratic Services the following day. The Head of Democratic Services took immediate steps to clarify who the Member was, and to attempt to resolve the issue.

Ms Dawson explained how Ernst & Young identified what they regarded as significant risks. A Member asked about the use of consultants. It was clarified that Ernst & Young used their own internal consultants and that Cushman and Wakefield acted as consultants for LBB. A discussion took place concerning the testing for capital and revenue expenditures.

The Chairman enquired why the Spring Capital Loan had been identified as an area of focus. Ms Dawson responded that the Spring Capital Loan had been highlighted previously by KPMG and it was now the case that Ernst & Young wanted to understand more about the transaction as it was an unusual one; for this reason it had been highlighted.

A Member asked about VFM and enquired if Ernst &Young based their VFM assumptions solely on the consideration of the LBB accounts, or whether they would also consider the practices of other local authorities. Ms Dawson answered that Ernst & Young had teams that worked across a variety of local authorities and that because of this they would be able to identify good and bad practice. Reporting could be influenced if any of these factors were deemed to be significant.

A Member asked how far would the external auditors 'dig down' into the accounts and financial statements of the Council. Ms Dawson stated that Ernst & Young would need to first gain an understanding of the Council's Committee and Governance structure. They would need to make a judgement as to whether or not the system of controls was robust and reliable. They would also undertake an assessment of Internal Audit. Ernst & Young would only dig down further if they felt there was an issue or a risk.

Mention was made of the LCIV (London Collective Investment Vehicle) and it was noted that the LCIV would also be subject to an external audit.

RESOLVED that:

1) The External Auditor's arrangements for the Audit Plan for 2018 to 2019 are noted.

2) Members note and agree the Materiality and reporting levels as outlined in the report.

33 ANNUAL INTERNAL AUDIT PLAN 2019/2020

FSD 19023

The Annual Internal Audit Plan was a risk based plan, the output from which would be used by the Council to inform the Annual Governance Statement. Members were being asked to approve the Plan. Members were also required to note and comment on the revised assurance options and definitions, along with the priority risk ratings and definitions.

The Plan was in draft stage and had been developed in consultation with the Corporate Leadership Team.

The Annual Internal Audit Plan proposed a tier of 4 new assurance levels:

- Substantial Assurance (Green)
- Reasonable Assurance (Yellow)
- Limited Assurance (Orange)
- No Assurance (Red)

Three new Risk Ratings were being proposed:

- Priority 1 (Red)
- Priority 2 (Orange)
- Priority 3 (Green)

The Committee noted the work schedule for Internal Audit as outlined in the Plan, and also noted how the work would be split between Directorates. The Plan had scheduled in 902 days work over 4 Directorates. This was two days more than the previous year.

RESOLVED that:

1) The 2019/2020 Internal Audit Plan is approved.

2) The Committee note and agree the revised assurance options and definitions, along with the new priority risk ratings and definitions.

34 INTERNAL AUDIT PROGRESS REPORT

FSD 19024

The Internal Audit Progress Report was written by the Head of Internal Audit and informed Members of recent audit activity that had taken place across the Council; it also provided an update on matters that had arisen from the previous meeting. Members were asked to note and comment on the report and also to approve the updated Anti-Fraud and Corruption Policy and associated documents.

The Head of Audit briefed Members that a 'Risk Register Refresh' had taken place between December 2018 and January 2019, but none of the risk registers required any major changes. A revised suite of risk registers would be presented to the Committee at the June meeting, along with the Annual Governance Statement. The External Auditors had identified Brexit as an additional risk.

A GDPR 'health check' took place in November 2018 and was scoped in conjunction with Zurich. The outcome of the health check was largely positive. Members heard that the planned audit of Business Continuity would be deferred as the two officers previously dealing with the service had left the Council.

The Head of Audit was pleased with the findings of the audit that had been undertaken regarding the Housing Register, and so the assurance provided was 'Substantial'.

The Chairman looked at the audit findings relating to the Management of Strategic Property, and the Director of Regeneration was present to answer questions on the audit. The Chairman was disappointed to note that the assurance level for the 'Management of Strategic Property' was 'Limited'.

It was clarified that with respect to the management of Strategic Property. The main contractor was Amey, and the sub-contractor was Cushman & Wakefield. There were various issues that were identified by Internal Audit. There were instances identified when invoices were paid to the sub-contractor where the appropriate supporting documentation did not seem to support payment in full.

Another issue that had been identified in the audit was that work had been undertaken by the sub-contractor which was outside the scope of the original contract. It had not been able to be determined if the TFM agreed schedule of rates had been applied to this work and so it could not be determined if the Council had obtained value for money in these cases.

Additionally, the Head of Audit stated that the KPIs on the contract were not working because they were deemed not workable. It was also the case that there were no instances of default penalties being applied.

When the contract commenced in October 2016, it had been agreed that the Strategic Property Sub-Contractor would develop a £1m Income Generation Plan. Internal Audit expressed limited confidence in the plan being developed on time and achieving the planned savings.

The Director of Regeneration commented that the report was fine and fair, and was accurate at a point in time. He said that in some areas (like disposing of the Old Town Hall), Cushman and Wakefield were very effective. However, there were other areas where he felt that they lacked understanding of what was required from the Council.

The current plan to generate £1m of new income was being assessed by the Finance Department. Clarification was required to ensure that any money that had been classed as 'new money' or new income, did indeed meet the relevant criteria to be so classified. He said that the issues that had been identified around KPIs represented a learning curve; he was hopeful that those issues had now been addressed.

The Chairman asked Mr Brand if the Council had lost money. Mr Brand responded that this was likely not to be the case. He pointed out that from the offset, Cushman & Wakefield were dealing with information relating to property assets that was in a mess, and which required data cleansing. The initial piece of work that had been required was to cleanse the property database. Working on the Income Generation Plan would follow the data cleansing. The Director was confident that additional income was being generated. The sub-contractors were treating the Property Portfolio with respect.

The Director advised that LBB only became aware of issues/problems as both parties worked though the contract. From the offset there were issues with staffing, IT and inaccurate data. It was noted that financial incentives existed for the sub-contractor to achieve the 'new income' target, and that they were now being supported by Finance to do so.

Mention was made of rental arrears relating to community groups and the various tensions and issues around this. Cushman & Wakefield had been asked to undertake a review of leases. A Member asked what the aggregate rental arrears were, and the Director responded that he would check and email the Member with the information.

The Vice Chairman enquired about agreements to reduce rent or forego rent increases for community groups. He asked if any records existed that recorded these discussions. The Director said that LBB supported local organisations and that Cushman & Wakefield were aware of the political environment. Many of the community groups were not commercial organisations and so would not be able to bear rent increases.

The Vice Chairman referred to the matter of 'unworkable KPIs' and asked if LBB had now understood what had happened, so that the same thing did not

happen again. It had taken a year to re-negotiate the KPIs and this had to be avoided.

The Director responded that LBB was indeed looking at the lessons that had been learnt. He acknowledged that the contract should have run better and that outside advice should probably have been sought earlier. Change controls had now been implemented.

It was noted that tensions had existed between Cushman & Wakefield and Liberata regarding unpaid rent, but the Director assured that things were better than before and were moving forward in a satisfactory manner. A Member said that there should have been proper variations of leases. The Chairman expressed the view that it was unfortunate that discussions and meetings had not been formerly minuted and documented. The Director assured that management actions had now been put in place to address the various issues. The management actions had been agreed by the Director.

The Chairman asked what awareness did Members of PDS Committees have of these issues. The Director clarified that the issues had been reported into the Resources Portfolio. Finance was also aware. The Chairman asked if the ER&C PDS Committee was aware. The Director responded in the affirmative.

A Member asked for assurances that leases were now being dealt with in the proper manner. The Director stated that he was now a lot more confident that this was the case. The Member asked if it was possible to recoup retrospective payments from tenants. The Director explained that if this course of action was pursued, then many community groups would be in danger of closing. He felt that what was now required was to put the community groups on the right footing going forward, and to manage them on a case by case basis.

A Member expressed concern that unworkable KPIs had been agreed. He was also concerned that this had taken a year to deal with. He asked who this had been reported to and it was noted that the matter had been reported to the Contracts & Commissioning Sub Committee and to the Strategic Asset Management Group.

The Chairman thanked the Director of Regeneration for attending the meeting and for answering questions, and the Committee then turned their attention to the audit of Parking Income.

The Head of Internal Audit briefed the Committee that two P1 recommendations had been made subsequent to the audit of parking income. These were recommendations regarding contract variations and key performance indicators. Five additional P2 recommendations were made to improve controls. Resultantly, the audit opinion was ‘Limited.’

A Member asked if KPIs were ‘right’, expressing the view that they were in fact ‘wrong’. He felt that an unhealthy focus on KPIs meant that the KPIs

themselves became the objective rather than service delivery. He felt that this should be considered, as KPIs often seemed to be the cause of problems in contracts.
The Head of Audit stated that KPIs should be meaningful, should be well thought out, and monitored at an early stage. There was a cost to monitoring that had to be considered. It may a useful exercise to consider what other organisations were doing.

The Head of Audit briefed Members on the audit of Health and Safety. Various recommendations were made, including a P1 recommendation to address the fact that a 'Risk Assessment Universe' did not exist. This meant that LBB would not be able to demonstrate that it had assessed its health and safety risks, and had formulated action plans to implement controls. The Vice Chairman expressed concern regarding possible reputational damage that LBB could suffer if the relevant controls and assessments were not in place.

Members were pleased to note that the audit of Debtors' Income had resulted in a rating of 'Substantial' assurance.

Members were briefed concerning the audit of St Olave's School. Although the audit rating was 'Limited', it was still felt that good progress was being made as the school had fully implemented 8/14 of the previous recommendations, and another 4 recommendations had been partially implemented. The new audit had revealed a weakness in the expenditure process, which had resulted in two new P2 recommendations.

The Committee was appraised regarding the audit of Information Governance and GDPR. The audit opinion for Governance, Policies and Procedures was 'Substantial'. The audit opinion relating to training and awareness arrangements was 'Limited'.

Members were briefed concerning the P1 follow up audit relating to the review of agency staff. In January 2019, it had been identified that 195 agency staff had been engaged for longer than 6 months, while 18 staff had been engaged for longer than 3 years. Internal Audit had asked HR to provide the business cases made by the Directorates to continue the engagements. The information was in the process of being collated.

It was noted that in many cases the continued engagement of staff in Children's and Adult Social Care was required due to a shortage of qualified staff. Mr Barrie Cull (Internal Audit) briefed the Committee on this matter and said that HR should be chasing the business cases, rather than leaving it for internal audit to do so. He said that more extensive testing would be undertaken and the Committee would be notified of the results.

The Committee noted that the use of agency staff in Children's Social Care provided flexibility, and avoided issues associated with pensions and TUPE. A Member enquired if HR had ever refused a business case of this nature. Mr Cull responded that he was not aware of a refusal, but it was the case that the business cases presented were normally strong. It was agreed that the

Committee be kept informed of developments, and that an update on the matter should be brought to the next meeting of the committee on 4th June.

Members discussed the audit of the Reablement Team and the Reablement Assessment Team. Members were informed that the P1 recommendation relating to Reablement Performance Data had now been implemented. The P1 recommendation relating to the Outcome Measurement Tool was also now considered as closed as the OMT was no longer being used.

The audit of direct payments showed that all of the P1 recommendations had now been implemented. The audit of Creditors showed that matters were being progressed, but there were still issues that required addressing. The matter was now being overseen by Mazars.

Members were updated regarding the Council's Anti-Fraud and Corruption Policy, and Money Laundering Protocol. The Policy and Protocol were reviewed in November 2018, and minor changes were made. Local authorities were not directly covered by the requirements of the Money Laundering Regulations 2017, but it was generally considered good practice to comply with the spirit of the legislation. This would include the ability to demonstrate that appropriate safeguards and reporting arrangements had been put in place.

The Committee heard that the risk of the Council contravening the Money Laundering Regulations was low, but it was vital that employees were familiar with their responsibilities, as it was possible to incur serious criminal charges for a breach of the legislation. The Head of Internal Audit had been appointed as the Money Laundering Reporting Officer.

As a result of changes made to the Council's Anti-Fraud and Corruption Policy, the amount of money that the Council would accept in cash had been reduced from £10k to £5k. The Committee agreed that Internal Audit should raise awareness of the changes with Managers and Staff. A Member suggested that computer based training be adopted for these areas, as this could then be recorded.

RESOLVED that

1) The report is noted

2) The Committee notes the Internal Audit reports that had been published on the Council's website

3) The updated Anti-Fraud and Corruption Policy is noted and approved, along with the associated documents

4) Internal Audit raises awareness of the changes to the Anti-Fraud and Corruption Policy with managers and staff

5) The Committee be kept informed of developments around the submission of business cases from HR for the retention of agency staff beyond usual timescales, and that an update on the matter be brought to the next meeting of the Committee on 4th June.

6) The Director of Regeneration would respond to the query from a Member regarding aggregate rental arrears.

35 DATE OF THE NEXT MEETING

It was noted that the date of the next meeting was June 4th 2019

36 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.

37 INTERNAL AUDIT FRAUD, INVESTIGATION AND EXEMPT ITEMS REPORT

The Head of Internal Audit updated the Committee regarding the Internal Fraud and Investigation Report.

This was a Part 2 (exempt information item) report, and so the minutes have been drafted as Part 2 (private) minutes.

Members noted the report and commented upon matters that had arisen from previous meetings.

38 MATTERS ARISING--PART 2

The Part 2 Matters Arising report was noted.

39 EXEMPT MINUTES OF THE MEETING HELD ON 14th NOVEMBER 2018

The exempt minutes of the meeting that had been held on 14th November 2018 were agreed and signed as a correct record.

The meeting ended at 9.13 pm

Chairman