

## **AUDIT SUB-COMMITTEE**

Minutes of the meeting held at 7.00 pm on 15 July 2020

### **Present:**

Councillor Neil Reddin FCCA (Chairman)  
Councillor Robert Evans (Vice-Chairman)  
Councillors Gareth Allatt, Ian Dunn, Keith Onslow,  
Tony Owen and Stephen Wells

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

No apologies for absence were received.

### **38 DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **39 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 26th FEBRUARY 2020--EXCLUDING MINUTES CONTAINING EXEMPT INFORMATION**

The public minutes of the meeting held on 26<sup>th</sup> February 2020 were agreed as a correct record.

### **40 QUESTIONS TO THE CHAIRMAN OF THE AUDIT SUB COMMITTEE**

No questions were received.

### **41 QUESTIONS ON THE INTERNAL AUDIT REPORTS PUBLISHED ON THE COUNCIL WEBSITE**

No questions were received regarding the Internal Audit reports that had been published on the Council Website.

### **42 EXTERNAL AUDIT PLAN FOR 2019--2020**

Representatives from Ernst and Young (E&Y) attended to provide an update regarding the External Audit Plan for 2019-2020. These were Janet Dawson, Hannah Lill and Adrian Balmer.

Ms Dawson outlined the key areas of risk as assessed by E&Y.

These were:

- Misstatements due to fraud or error
- Incorrect capitalisation of revenue expenditure
- Asset valuations
- Pensions valuations and disclosures.

The first two risks noted were common risks associated with local government generally. Asset valuations would need particular attention to detail, due to the historic problems with these valuations, and due to the effects of the pandemic. The IOCS (Institute of Chartered Surveyors) had issued a statement which said that they would expect their advisors to note an aspect of material uncertainty in their valuations because of the Covid pandemic,

The Committee noted that Pensions Valuations and Disclosures had also been classed as a significant risk. This was not to be taken as indicating that the external auditors saw anything wrong with the Pension Fund or its valuations, but rather that this was an area that was generally complex to value; it was also an area that would have been affected by Covid and the volatility of the financial markets.

Ms Dawson drew attention to another key area of risk which was identified as 'Going Concern Compliance with ISA 570'. This was a new area of focus and essentially meant that it would increase the workload of auditors in the UK when they assessed whether or not councils were financially viable. Ms Dawson had therefore considered it necessary to draw the Committee's attention to this fact.

The effects of the Covid 19 pandemic were listed as a separate risk factor.

Ms Dawson drew attention to the section of the papers dealing with 'Value for Money' where it was noted that E&Y had to consider if LBB had put in place proper arrangements to secure economy, effectiveness and efficiency in the use of its resources.

Ms Dawson highlighted page 40 of the pack which explained the 'Materiality' reporting levels that would be adopted by E&Y. It was noted that 'Planning Materiality' for 2019/2020 had been set at £5.49m. This had been calculated as 1% of the Council's gross expenditure for the previous year which was £549m. ('Planning Materiality' was the amount over which the external auditor felt that a misstatement could influence the decisions of a user of the financial statements).

The Chairman asked Ms Dawson if LBB should expect a 'qualification' on the accounts, and the response to this was that this was not expected.

The Chairman asked if Ms Dawson could shed light on any proposed increase to LBB's fees as a result of the extra work involved in the audit and the closer monitoring of external auditors by the Financial Reporting Council (FRC). Ms Dawson replied that she had been in general discussion with LBB's Director of Finance concerning this matter and talks would continue going forward.

The Chairman referred to the Pensions Audit and specifically to the Triennial Valuation. He noted that another £5k had been added here for fees and enquired whether or not the £5k had been costed into the original external audit valuation. Ms Dawson responded that it had not.

A Member asked why the Pension Fund had been assessed as a red risk as it did not have a deficit and was a well-managed fund. The fund was currently valued at £1.17 billion, which meant that the fund was 109% funded. He disagreed with the red rating and asked for an explanation as to why this was the case. He hoped that the red risk rating would not be one of the reasons why an increase in fees would be justified. Ms Dawson clarified that the red risk rating applied in E&Y's audit plan, had been applied purely from their audit perspective, and was not in any way a reflection on the management and viability of the fund itself. E&Y had to satisfy themselves regarding any risks to the fund, and this same methodology had been applied to all of E&Y's clients. The term 'deficit' in this regard did not mean that the fund was not sufficiently funded, it just meant that from an audit perspective it was a liability on the balance sheet.

The Member referred to the mention in the report of changes to the Finance Team, and that this was problematic. He acknowledged that the team was small, but stated that they were qualified and efficient, and so he wanted to ask why this was an issue as far as E&Y were concerned. Ms Dawson highlighted the fact that to produce a quality set of accounts, a significant amount of work was required. LBB had lost officers in the Finance Department that were very experienced, and who understood how the LBB systems worked. When they had left, corporate history and knowledge left with them. Given the fact that the current team was small, and that corporate history had been lost, it was E&Y's view that this was a risk factor that had to be highlighted to the Council. In their view, small teams could struggle to respond, particularly when resources had been stretched due to the pandemic.

The matter of whether or not LBB's accounting systems supported data analytics well was discussed along with how LBB's systems compared with those of other councils. Ms Dawson explained that when E&Y undertook audits, as part of their data analytics process, they needed to download information from an organisation's general ledger for the particular year under audit. This then enabled data to be manipulated into different categories and further drill downs were often required to extract data samples. She said that this was not fully possible with LBB's general ledger as they were only able to drill down to one level. The process was further complicated by the fact that the pension information was on the same ledger and so these two factors combined to slow down their audit process.

Mr Balmer commented on a case where E&Y were currently undertaking the audit of the accounts of a County Council. The audit had commenced roughly 5 weeks before, and E&Y were now just one week away (approximately) from completing the audit. The reason given for this was that the County Council's

general ledger systems were such that E&Y was able to drill down and extract the data required in a more efficient and faster manner.

The Chairman thanked Ms Dawson and her colleagues for attending the meeting and for their presentation.

**RESOLVED that**

**1) The External Auditor's arrangements for the Audit Plans (2019-2020) are noted.**

**2) The materiality and reporting levels are agreed.**

**43 ANNUAL GOVERNANCE STATEMENT 2019/2020**

The Head of Audit and Assurance explained the regulations and statutory framework around the Annual Governance Statement (AGS). He also outlined the various sources of assurance that were relied upon when drafting the Statement. He explained that several key governance issues had been identified going forward as a result of the annual review. These were:

- Finance
- Valuation of Fixed Assets
- Impact of the Covid 19 pandemic on Service

It was noted that the financial position had improved somewhat before lockdown, due to an improved financial settlement that had been received from central government, notwithstanding the Council's £16.9m budget deficit. It was also the case that a Transformation Plan was in place. However, the Council's financial position would have been adversely affected by the economic fallout from Covid 19, and the full effect of this would be difficult to evaluate at the moment. The Council had experienced loss of income streams along with increased expenditure. Some monies had been provided by central government, but there were still some areas where the financial burden was falling upon the Council.

It was noted that revised revaluation work relating to fixed assets had been completed and revised accounts had been submitted to the external auditors. It was anticipated that any outstanding work required to be completed by E&Y with regard to fixed assets would now have been completed, and E&Y would be reporting on this to the GP&L Committee on 30<sup>th</sup> July.

Mr Balmer confirmed their presentation to GP&L and that the revised valuation work had been accepted. It was hoped to sign off this aspect of the accounts shortly after the GP&L meeting.

A Member asked if it was possible to assess the effect of the pandemic on the Transformation Programme. The Head of Audit and Assurance responded that he was not in a position to answer this question at this early stage, but the situation was being monitored by the Transformation Board.

**RESOLVED that the Annual Governance Statement is agreed and adopted.**

#### **44 ANNUAL INTERNAL AUDIT REPORT**

The Head of Audit and Assurance stated that in 69% of cases, the assurance ratings assigned by Internal Audit after completion of audits were positive. Issues identified and recommendations made were generally complied with and LBB had a reasonable system of internal control, with these controls being applied consistently.

The Chairman asked if he could remind the Committee which audits had been delayed or cancelled as a result of the pandemic—these were discussed. The Head of Audit and Assurance explained that the full analysis was included in Appendix A.

In some cases, work had commenced but needed to continue, in other cases work had been delayed and assigned to the following year's Audit Plan. The Audits that had been cancelled were:

- Creditors
- The use of Consultants
- Information Governance
- Procurement Control Framework
- Mental Health Service Agreements

The Head of Audit and Assurance said that in the next quarter, there would be much work undertaken on the government funding streams that were coming in. This was in relation to (amongst other things), Business Support Grants, Track and Trace and Discretionary Grants.

The Vice Chairman referred to section 3.59 of the report which mentioned four Priority 1 recommendations that had been carried forward from one year to another. He said that it appeared that these had been carried forward in 2018/2019 and also in 2019/2020, then transferred again. He asked what these were and why they had not been actioned.

The Head of Audit and Assurance responded that two of the recommendations related to the Leaving Care Audit, where there was now a new Head of Service in place. Another was related to Strategic Property. The final one was related to the Health and Safety Audit that took place at the end of 2019/2020. It was clarified that the Health and Safety recommendation had still been open as at the end of March, but it was now closed. Action was being taken with respect to the recommendation for Leaving Care, but the new Head of Service had to deal with a backlog of cases.

A Member enquired when staff from the Internal Audit Team would return from their Covid related duties to working back on internal audit work. The Head of Audit and Assurance answered that internal audit staff had returned

to their normal roles on 1<sup>st</sup> July. They had been working with the Shielding Team. They had received compliments from the head of that team who was sorry that they had to resume normal duties. This was a good example of transferable skills within the Internal Audit Team. It was noted that services were recovering at various speeds, and that at the moment many services would not be ready for an internal audit. However, there was plenty of work that needed to be done by Internal Audit with respect to new funding streams.

A Member highlighted the importance of process maps and asked if Internal Audit looked out for process maps during the course of undertaking audits. The Head of Audit and Assurance responded that it was more straightforward if services had a process map in place. This made it easier to see how the service/system flowed and where the controls should be. The Head of Audit and Assurance did insist that services use procedural documentation and guidance.

A Member asked if the Head of Audit and Assurance felt that St Olave's had the expertise and support available to get where they needed to get to. He responded that St Olave's did have a governing body. There had been some evidence of improvements and implementation of previous recommendations, but other weaknesses had been identified. The Vice Chairman at this point declared an interest as a Governor of St Olave's and advised that the school had been trying to recruit a new Business Manager. He explained that for one day a week, the Clerk to the Company was offering his services until the new Business Manager was appointed.

A Member raised the matter of 'Starters and Leavers' and expressed frustration that this was an issue that had not been properly resolved after several years. In his view this was a straightforward issue to resolve and he wondered if it was now time to escalate to Directors.

The Committee agreed that the Internal Audit Team's work through the Covid pandemic, should be brought to the attention of the Leader and the Chief Executive.

**RESOLVED that the Annual Internal Audit report is noted along with the Head of Audit and Assurance's opinion on the soundness of the London Borough of Bromley's internal controls.**

#### **45 INTERNAL AUDIT PROGRESS REPORT**

The Head of Audit and Assurance briefed the Committee on how **Covid 19** had impacted on the Audit Plan, together with the risk profile of the Council in a short space of time. Internal Audit had to look at the services currently being implemented, as well as new services and processes being delivered as a result of the pandemic. Some controls had been relaxed because of working from home for example. The Council had to ensure that suppliers were supported through the pandemic and so processes, and rules had been changed. However, fraud risks were existent for all councils. The Audit Plan had to be flexible and agile to deal with multiple demands.

**The Audit of the Care Act (Information, Advice and Guidance)** had been completed and the level of assurance was 'Reasonable'.

The audit of **contracts coming to an end** had been completed and the level of assurance was 'Substantial.'

Members heard that the audit of **Looked after Children** had resulted in a Priority 1 recommendation (for children moving into the 18 plus age group). It was found that a number of cases did not have a valid contract in place with the provider, so the Contract Procedure Rules and the Financial Regulations were not being followed. The service was working through a backlog of existing placements. The level of audit assurance was 'Limited'.

The Committee heard that the audit of **'More Homes Bromley'** had been a complex piece of work. It was an innovative scheme and 360 properties had been delivered in a short timeframe against a target of 400--this had been a steep learning curve and many lessons had been learned. Recommendations had been made to improve the control environment. Short- and long-term operational risks needed to be identified as well as priorities. KPI data was required. The Head of Audit and Assurance felt that the business plan, business accounts, and financial model all required updating. The Council's Insurance Board needed to satisfy themselves that all properties were covered by relevant insurance. The final accounts had not been formally approved before being filed at Companies House.

Although it was the case that there had been many recommendations, the project had been very successful in that it was delivering much needed housing stock for the Council and was also of significant benefit to the public in terms of providing housing. The Chairman was pleased to note that there were no Priority 1 recommendations.

A discussion took place regarding the Council's Board Members for the **More Homes Bromley Scheme**, and how could the Committee be satisfied that the correct insurances were in place if the Board Members were not insurance experts. The Head of Audit and Assurance informed Members that this was indeed an issue that should not be overlooked, and it would be reviewed at the next Board meeting. The Board was encouraged to take expert independent advice if required.

A discussion took place as to how the audit opinion of reasonable assurance had been given (in respect of More Homes Bromley) as the project had been subject to numerous recommendations from Internal Audit. The Head of Audit and Assurance explained that given the size of the project, and what it was delivering and achieving in operational terms--on balance a rating of limited assurance would have been unfair. He expressed the view that the two senior officers who had been allocated to Board duties in addition to their normal roles, had done very well, given the fact that the additional roles were quite a pull on their time considering the project size— he felt that the project would benefit from a dedicated project lead.

The **Pensions Administration** audit showed that for the most part, systems were working well, but one area of concern was that it did not appear that the pension accounts from the general ledger and their reconciliation with IT systems were being reviewed or signed off. The audit opinion for pension administration was 'Reasonable'.

The Head of Audit and Assurance informed Members that the audit of the **Registrars** department had gone well, and that generally speaking the systems and financial control procedures were satisfactory. The audit opinion was therefore 'Substantial'.

A Member expressed concern about the small size and cutbacks to the **Finance Team**, as he felt that this constituted an operational risk. The Head of Audit and Assurance, together with the Committee, agreed that there was leanness in the Finance Section that needed to be monitored.

Members were provided with an update on **St Olave's**. A number of recommendations were made. The Priority 1 recommendation that had previously been issued, was in relation to project management and financial processes. There had been non-compliance with financial regulations in some areas. The budget had not been signed off by the Chair of Governors and the balance sheet showed a deficit at one point. The audit had resulted in 2 Priority 1 recommendations and 7 Priority 2 recommendations and so the level of audit assurance was 'Limited'.

The **Troubled Families** claim had been signed off and the Head of Audit and Assurance updated the Committee regarding the Priority 1 follow ups. The usual follow up procedures had not been initiated as a result of the Covid pandemic. However, if officers wished to feedback with any updates to internal audit, then these would be noted. The **Health and Safety** recommendations had been signed off, along with the **Domiciliary Care Contract Management** recommendations. With respect to the **Highways Maintenance Contract** recommendations, a number of changes had been put in place, but they needed to be embedded before being audited. The Head of Audit and Assurance commended the work of the **IT Service Department** and also the Work of LBB's **Business Continuity and Resilience Lead** in their response to the Covid pandemic.

**RESOLVED that the Internal Audit Progress Report is noted, and that the Committee note the Internal Audit reports that had been published on the Council's website.**

**46 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.**

**47 INTERNAL AUDIT FRAUD, INVESTIGATION AND EXEMPT ITEMS REPORT**

The Head of Audit and Assurance introduced the Internal Audit Fraud report which provided an overview of the counter fraud work undertaken by Internal Audit in 2019/20. It detailed the impact of COVID-19 on audit activity and the assurance work that had been carried out with respect to the Business Support Grant and the Discretionary Grant.

The full minutes for this section of the meeting are noted in the 'restricted minutes'.

**48 EXEMPT MINUTES OF THE MEETING HELD ON 26th FEBRUARY 2020**

The exempt minutes of the meeting that took place on 26<sup>th</sup> February 2020 were noted and agreed as a correct record.

The meeting ended at 8.55 pm