

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Tuesday, 6 December 2022
(7:00 - 8:20 pm)

Present: Cllr Princess Bright (Chair), Cllr Rocky Gill (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Manzoor Hussain and Cllr Muazzam Sandhu; Stephen Warren

Also Present:

Apologies: Cllr Margaret Mullane

15. Declarations of Interest

The Independent Advisor (IA) disclosed that he was engaged as a consultant to Public Sector Audit Appointments (PSAA) which appointed the Council's external auditor. The IA disclosed that he had advised on the financial evaluation on the forthcoming tender and the potential impact on the time that would be required as a result of changes in auditing and accounting standards requirements.

The IA assured the Committee that it did not directly affect Barking and Dagenham Council or the appointment of an external auditor. The Chair agreed that this was not a disqualifying interest and permitted the IA to continue to participate in the meeting.

16. Minutes - To confirm as correct the minutes of the meetings held on 12 October 2022

The minutes of the meeting held on 12 October 2022 were confirmed as correct.

17. Audit 2019/20 Completion Update

The Chief Accountant (CA) informed the Committee that the audits of the Council's subsidiary companies for the fiscal year 2021/22 were on track to be completed by the end of December 2022.

The BDO Representative updated the Committee and highlighted the following;

- The previous Senior Audit Manager left BDO in July 2022;
- Handover was hindered because of periods of sickness; and
- The replacement Senior Audit Manager was in the process of completing a detailed review of work yet to be completed, as well as work already completed and subject to earlier review.

The review had, so far, found the following;

- Balance sheet sections were completed though there had been a number of issues raised relating to property, plant and equipment (PPE);
- PPE issues that needed to be addressed included those from the External Quality Reviewer (EQR) that related to approximately to 25% of issues

already addressed. BDO and the Council would focus on the 'harder' points first such as:

- Income and expense areas still to be reviewed
- Pension Fund still to be reviewed – this was the more complete area, and BDO had agreed to focus on main audit first

The BDO Representative then discussed the issue of infrastructure noting that there had been an amendment to the CIPFA/LASAAC Code which removed the need to report gross cost and gross accumulated depreciation in notes to the Statement of Accounts. The Financial Reporting Advisory Board (FRAB) approved this on 18 November 2022.

As a result, a Statutory Instrument was presented to Parliament on 30th November 2022 and it was expected to come into force on 25th December. CIPFA were preparing a bulletin to accompany the amendment and statutory instrument. BDO anticipated that this would be completed by January 2023 and, as a result, the position in relation to infrastructure would be completed at the same time. This in effect would act as an override since auditors would not be required to report gross costs and gross accumulated depreciation on balances brought forward.

BDO's Engagement Lead for 2019/20 and 2020/21 was on sick leave; however, it was anticipated that the Engagement Lead would return in the New Year. Where that was not possible, a new Engagement Lead would need to be appointed and would be required to restart the review process which would cause considerable delay the audit.

The BDO representative also confirmed that a new Senior Audit Manager would be appointed from the end of January 2023 as the existing manager was moving to a new role within BDO.

As a result of the absence of the engagement lead and the change in Senior Audit Manager, it was now unlikely that BDO would be able to complete all of the remaining work by 28th February 2023 as previously indicated. The BDO representative expressed regret at the latest delay but stated that BDO believed that they would be in a position to report in March 2023. However, the BDO Representative added that, whilst the 2020/21 audit could start in March 2023, it would have to be suspended soon after owing to NHS related audits taking place. Major work would not start until the NHS audits were completed which would be in Summer 2023.

The Committee expressed its disappointment and frustration at the latest delay to the 2019/20 audit and expressed scepticism that the March 2023 deadline would be achieved. The Committee also voiced concern at the dependence by BDO on specific members of staff to complete the audit.

BDO responded that staffing, resourcing and capacity was affected by a UK wide crisis in local authority auditing. There was an insufficient number of qualified persons to carry out the work and thus there was no spare capacity. Given the small pool of qualified individuals, where a staff member was ill or left, they often could be replaced quickly and this negatively affected audits. Additionally, given the qualifications, experience, skills and clearance required to audit local

authorities, it was difficult to recruit replacements.

BDO added that the resource being invested in the audit was greater than the PSAA contract envisaged. This requirement for greater resources had contributed to the audit delay. In response to questioning, BDO said that valuations and treatment of group accounts, among others, had created more work than had been anticipated. BDO had opted not to bid for future PSAA contracts as it wanted to focus on the completion of outstanding audits.

The Strategic Director for Finance (SDF) stated that the Council was working closely with BDO to outline actions and mitigations in order to ensure that as much work was completed before the Engagement Lead's possible return in January 2023. The Council had already taken action to address issues raised in the 2018/19 audit and would continue to do so.

The CA added that 2022/23 fiscal year would be the last year of BDO's PSAA contract and the next contract would be undertaken by a new company. The CA noted that further resourcing issues may arise as the shortage of qualified personnel continued. The CA also warned that NHS audits, which took place in Spring, were showing signs of slippage in their schedules which could create further pressure on local authorities.

In response to questioning, BDO said that an individual had been identified to take on the role of Senior Auditor Management when the existing one leaves in January 2023. In relation to the Engagement Lead, in the event that they cannot return, then it would be taken over by another Audit Partner who was already identified. However, owing to capacity constraints, the ability to carry out preparatory work for this possibility could not be undertaken in December 2022.

The Committee agreed to the Chair's proposal that the meeting scheduled for 7th February 2023 should be held to enable the Committee to be kept informed of the 2019/20 Audit's progress and to discuss any further issues that may arise. The Committee also agreed to move the meeting scheduled for 6th March 2023 to later in that month.

The Committee noted the update.

18. Standards Complaint Update

The Committee noted the Standards Complaints Update.

19. Corporate Risk Register Update

The Head of Assurance (HOA) updated the Committee.

The Senior Leadership team had held a risk management workshop which undertook a fundamental review of the strategic corporate risks that may prevent the Council from achieving its objectives. There were 14 corporate risks prior to the workshop however one risk, the Enterprise Resource Planning (ERP) system, was removed as the system had now been implemented therefore the risk was unlikely to materialise. Each risk owner had reviewed their risks in terms of wording, accuracy and deliverability.

The Committee asked about ERP requesting further information on the decision to remove it. The HOA responded that the risk surrounding ERP related to potential costs resulting from delays. Now the ERP had been implemented this was no longer a risk. An internal audit review had been undertaken whilst the project was being implemented and the Internal Audit Manager was on the implementation team for the project. A post implementation review was also undertaken and a rating of 'substantial assurance' was given. This was reported to the Committee in July 2022 in the Annual Review of Internal Control.

The Committee asked about the risk relating to 'safeguarding failure' noting that the target risk was given a red rating and sought clarification as to why it had been given this rating. The HOA explained that the risk score was rated 'red' because, although the council worked hard to prevent such failures occurring, where such a failure did occur it would be extremely difficult to mitigate the consequences.

In response to further questioning, the HOA disclosed that climate change had been discussed in relation to the formulation of risks. The Council's risk management approach was focused on addressing potential issues that may prevent the Council from meeting its objectives and climate change was considered in relation into how it could increase the materialising of a risk.

The Committee noted the update.

20. Internal Audit Report 2022/23- Q1 and Q2

The HOA updated the Committee.

The Internal Audit was divided into two areas: school audits and the risk and compliance audits. The plan was risk based and as the Council's risks change and evolve the Internal Audit Plan would be amended to reflect this.

The Risk and Compliance Plan had-

- Five new audits added;
- One audit was removed; and
- In Q2, 13% of the plan had been completed which was below the 25% target.

The HoA told the Committee that they were confident that 100% of the plan would be completed by the prescribed deadline. The HoA acknowledged that this would require the support of audit firms but stated that commitments had been made to ensure that sufficient resources would be deployed.

Following questioning, the HoA explained that when the internal audit plan was constructed, contingency days were set aside to take account of potential additional requests or audits where the Council's risk profile changes.

In relation to confidence in the delivery of the plan, the HoA explained that the plan's deliverables were weighted towards the end of year. This was due to the requirement to enable an appropriate audit period. Therefore, certain targets could not be delivered at this time.

In relation to Schools Audits, these would be done in-house and the HoA was confident that they would be completed by the prescribed deadline. Seven draft reports had been issued since the start of the year and all had been awarded a 'reasonable assurance' or 'substantial assurance.'

In response to questioning, the HoA clarified that the decision on which schools to audit was based on a risk assessment. Among the factors that the HoA cited as examples of heightened risk were

- Schools that had a high turnover of staff, especially Head Teachers and Business Managers;
- Ofsted inspections determined risk ratings as there was a connection between good management and good teaching; and
- The time that had elapsed since the last audit, as well as the outcome of the previous audit also determined risk.

Progress on the implementation of previous internal audit recommendations continued and the HoA highlighted that one high risk finding remained outstanding as of 30th September 2022. This related to the Council Tax Report from the previous year when the deadline was agreed for the implementation of the reports' recommendations. A revised completion date of 31st January 2023 was agreed owing to additional information being required in relation to the distribution of the energy rebate provided by the government. The Group noted the update.

21. Review of Counter Fraud Policies

The HoA updated the Committee.

The Council took a strong stance against fraud and, as part of its strategy, all policies were reviewed annually to take into account any change in working systems within the Council as well as legislation. Most of the changes made related to whistleblowing and anti-bribery policies. Papers circulated to the Committee contained tracked changes to enable Committee members to see where adjustments had been made.

The Counter Fraud Policies were shared with Legal, HR and the Trade Unions as well as being published on the Council's intranet following approval by the Committee.

The Committee noted the report.

22. Counter Fraud 2022/23 Qtr 2 Report

The HoA updated the Committee.

Four cases of fraud had been dealt with and the intention was to publicise the outcome within the Council to encourage whistleblowing since the prosecution would show that referrals were taken seriously. In addition to this, it was hoped that it would have a deterrent effect. In terms of housing related fraud, the Council had recovered four properties that were being sub-let in breach of tenancy

agreements.

The Committee noted that only a small proportion of referrals had resulted in action being taken. The HoA explained that all referrals are logged but on closer examination many do not constitute fraud and in such cases they were referred to the relevant section of the Council. The HoA also noted that they could not report on ongoing investigations until they had been completed. Where a complex or major fraud was uncovered, in addition to the investigation by the Council, bringing the case to court also took time and the HoA disclosed that trials had been set for 2024 in relation to former staff accused of fraud.

In relation to the Regulatory and Investigative Powers Act (RIPA), the HoA explained that the Council would require the authority of the Magistrates Court to carry out surveillance and the Magistrate would permit where it was deemed proportionate.

Following questioning, the HoA said that proactive work was undertaken to prevent fraud but noted that it was impossible to measure its effectiveness vis a vis not undertaking such work. Fraud was included in staff training with the HoA adding that anti-fraud training had been incorporated into IT training as well as budget training.

The Committee noted the update.

23. Work Programme 2022/23

The Committee agreed to maintain the meeting scheduled for 7th February 2023 and to move the meeting scheduled for 6th March 2023 to the end of March. The Committee agreed that the final arrangements for the March 2023 meeting would be considered when the Committee next meets on the 7th February.

The Committee agreed to the Independent Advisor's recommendation that a report be brought to the February committee in relation to the audits of the Council's subsidiary companies.