

Audit and Standards Committee Annual Report 2020/21

Chair's Foreword

I am pleased to present the first annual report by the Audit and Standards Committee.

This report is, in part, due to the outcome of the Redmond Review into the audit market which recommended that External Auditors produce reports for the full meeting of the Council. The chair proposed, and the Committee agreed, to produce a report of its own to compliment the External Auditor's report.

The Covid-19 pandemic had made 2020/21 a challenging year for the activities overseen by the Committee. The 2019/20 Audit has been delayed owing, in large part, to Covid-19. Social distancing meant that the External Auditors were unable to enter the Town Hall and other premises with unavoidable consequences for the completion of their work. In addition to this, the External Auditors redeployed staff to NHS related audits which required urgent attention.

Social distancing requirements has meant that the Council's counter fraud team have faced increased challenges in carrying out investigations as well as detecting errors and misstatements. Internal Audit's planned reviews had to be altered owing to the changing priorities that Covid-19 brought in its wake.

The previous audit for the municipal year 2018/19 was protracted and the Committee was deeply concerned insisting that a review be undertaken into the cause of the delays and measures to stop them happening again. An update was given on lessons learned and steps taken to avoid a repeat. Among the recommendations made was that communication be improved between officers, auditors and the Committee. However, Covid-19 means that the Committee has been unable to fully evaluate the effectiveness of these measures.

As a result of the challenges mentioned above, this Committee's inaugural report is regrettably being submitted late. To avoid further delay, this report is being submitted without the 2019/2020 Audit which will be submitted to the next ordinary meeting of the Assembly for its consideration.

However, whilst the Committee has faced considerable challenges, this has not stopped the Committee from continuing to refresh its knowledge. Committee members have undertaken training relating to risk, fraud detection, internal controls and overview of financial statements whilst, in my capacity as Chair, I attended an online weekender course for Audit Chairs arranged by the Local Government Association where I was also part of a panel sharing best practices that Barking and Dagenham Council adopt in our Audit and Standards Committee meetings.

I would like to thank Stephen Warren who, in his capacity as Independent Advisor, has supported the Committee in holding Council Officers and the External Auditors to account. I would also like to thank those officers who have been subject to the Committee's questions for their assistance in ensuring that the Committee is able to discharge its duties and I give thanks to the Cabinet Member for Finance,

Performance and Core Services who has often provided the Committee with an invaluable overview leveraging his expertise and skills.

Finally, I would also like to thank Cllr E Rodwell, Cllr Haroon and Cllr Khan, who all stood down from the Committee at the end of the municipal year, for their contributions and dedication.

Cllr P Bright

Chair, Audit and Standards Committee

Membership

The Audit and Standards Committee for 2020/21 consisted of eight Councillors:

- Councillor Princess Bright (Chair)
- Councillor Adeboyega Oluwole (Deputy Chair)
- Councillor Simon Bremner
- Councillor Josie Channer
- Councillor Kashif Haroon
- Councillor Irma Freeborn
- Councillor Emily Rodwell
- Councillor Mohammed Khan

Masuma Ahmed, Principal Governance Officer, and Claudia Wakefield, Senior Governance Officer, supported the Committee.

Statement of Accounts 2018/19 and BDO's ISA260 Report

On 27th July 2020, the Committee received a report on the progress of the Council's Statement of Accounts and the Council's external auditor's draft Audit Completion Report. The Committee regretted that it was not presented with a Statement of Accounts for approval as some aspects of the audit were still outstanding. The Committee noted that the unadjusted errors identified in the audit were below the materiality threshold, and although this was an important milestone, it asked that the Committee be provided with sufficient opportunity to read the Statement of Accounts before presenting them for approval at a future date.

Although the Committee understood that there were a number of challenges in completing the audit this year, there had been substantial delays in progressing the audit. The Committee was very disappointed that the Statement of Accounts had not been presented, despite being reassured of this previously. The Committee was concerned that the completion of the audit was now being pushed to September 2020, and this would potentially impact the audit of the 2019/20 accounts. The Chair requested that:

- Following 27th July 2020 meeting, an annotated version the Statement of Accounts be provided so that Members could see the key differences between the draft version that was provided to the Committee in July 2019 and the proposed final set;
- Officers share their response to the recommendations made by BDO regarding the lessons learnt from the current audit so that the Committee could have reassurance that the issues identified would not recur when the audit of the 2019/20 accounts took place; and
- Officers provide a realistic date to hold a meeting of the Committee whereby the Statement of Accounts for 2018/19 may be presented for approval so that the Committee was not put in this position again.

In holding officers and the external auditor to account, the Committee learnt that the main difficulty in completing the audit had been the group accounts which had been very complex, due to the nature of the Council's structure and 2018/19 being the first

year of preparing them. The Council's Finance Director stated that the finance team was working hard with BDO to ensure the audit of the accounts could be finalised as quickly as possible. Whilst it was disappointing that the audit completion was now heading towards September 2020, the audit of the single entity accounts was almost there and the Assistant Manager for BDO stated that he felt it was realistic to aim for a date in September to present the Statement of Accounts to the Committee.

Members asked officers and BDO what actions they would take to learn from the delays and challenges that had occurred to ensure future audits of the Council's accounts progressed more smoothly. The Director assured the Committee that his team were committed to undertaking a 'lessons learnt' review with BDO's specialist team which would be in addition to the responses given to BDO as a result of recommendations made by them as part of the 2018/19 audit process. This work would take place in September 2020 so that the lessons learnt from this audit could be applied to the 2019/20 accounts audit process, to help ensure past mistakes were not repeated. The Director stressed that the Chief Accountant had been extremely thorough in working through the 2019/20 accounts, undertaking quality assurance to ensure the errors identified in the 2018/19 accounts were not repeated.

In response to questions, Members were informed that the Government had given local authorities an extended deadline to publish their 2019/20 accounts due to the Covid-19 pandemic, which somewhat mitigated the impact of the delay in completing the 2018/19 audit. Also, as BDO would have already undertaken an audit of the Council's accounts, they would be acquainted with how the accounts were set-up, which should smoothen the audit process for the 2019/20 accounts. Members were also informed that over 10% of local authorities' 2018/19 audits were outstanding at the end of May 2020 so whilst the Council's position was not desirable, it was not alone in facing complexities in its audit process for the 2018/19 accounts.

The Committee finally received the report on the Statement of Accounts 2018/19 on 21st September 2020 and the associated ISA260 Report from the Council's external auditor, BDO. The Committee was deeply disappointed that the Group Accounts for 2018/19 were not provided to the Committee. The Chief Accountant explained that changes were still being made to them and assured the Committee that BDO had almost completed their work on these accounts, which would soon be subject to their internal review.

The Chair expressed her significant disappointment in relation to the following issues, with regards to the Statement of Accounts:

- Despite all the assurances given at the 27th July 2021 meeting, the Committee still had not been presented with a complete set of accounts and a complete ISA260 report;
- There was no effective communication with her in advance of the agenda papers being circulated and the meeting itself, about the delay in finalising the Statement of Accounts and the reasons for it; and
- The ISA260 report, in respect of the pension fund, was not provided until requested, and was only received this morning via email circulation.

Members concurred with the Chair's comments and asked what the reasons were for the further delay in presenting a final Statement of Accounts. They urged Council officers and BDO to do everything necessary to conclude the audit of the 2018/19 accounts, so that the impact on the audit of the 2019/20 accounts could be minimised. The Council's Finance Director assured Members that much hard work had gone on to get the audit to the current position. He assured the Committee that the audit was almost complete and that it was likely that the Statement of Accounts would be in the position to be signed off in a couple of weeks' time. Whilst working on the 2018/19 accounts, officers had also been working on preparing the 2019/20 statements, which had been published on to the Council's website on 31 August 2020 as draft, in accordance with the statutory requirements. Whilst preparing the 2019/20 accounts, officers had reflected on the lessons learnt as part of the audit of the 2018/19 accounts and were confident that the next audit would go more smoothly. BDO assured Members that it was not uncommon for Audit Committees to receive a Statement of Accounts that was subject to some further clearance work, near the end of an audit. She acknowledged that the Chair of the Committee should have been kept informed of the issues arising in relation to the group accounts leading up to the publication of the agenda papers for 21st September 2020 meeting. With regards to the Pension Fund, the Audit Completion Report in that respect provided to the Committee by BDO at its meeting in 27th July 2019 was complete at that time, and no further audit work had been undertaken on the Pension Fund since then.

The Committee were reminded of the main reason for the delay in finalising the group accounts. The group accounts were extremely complicated, and this was the first time the group subsidiaries' accounts had been consolidated, so the Finance team had to start from scratch; whilst this was good in the sense that it would provide assurance as to the accuracy of the accounts, it also meant that BDO had to look into the prior year's accounts for comparison.

As a result of the Committee's discussions, the Council's Head of Assurance agreed to include the difficulties faced in the 2018/19 audit of accounts in the Annual Governance Statement for 2018/19.

In response to the Committee's questions, the Finance Director stated that as discussed at 27th July 2020 meeting, the Council had several groups of subsidiary companies that had been created for various purposes to get the most benefit from their arrangements, creating complexities for accounting purposes. Officers were keen to address these complexities where possible, such as looking into the Reside group of entities to review if there were any which could be closed. Going forward, it was important that when the Council creates new structures, this was done in a way that would bring the most benefit to the Council but also minimise the complexity of the accounting.

The Committee delegated the approval of the final Statement of Accounts to the Director of Finance, in consultation the Chair, on the proviso that the finalised Statement of Accounts, the explanations for movements from the draft accounts, and the finalised ISA (UK) 260 report from the auditors were circulated to the Committee, in sufficient time for Members to seek clarification of any matters.

Schedule of Subsidiaries Report based on 2018/19 figures

The Committee received a report on the subsidiaries owned by the Council, in order to further understand the complexities of the group accounts, which was a significant reason for the delay in completing the external audit of the 2018/19 accounts.

It was noted that each subsidiary was required to produce statutory accounts, which (depending on its size and the nature of the relationship with the Council) were subject to an annual audit. These accounts were then consolidated into the Council's group accounts, which were audited by the Council's external auditor, BDO. The Council had a complicated structure which made producing the Council's accounts a very complex task. For example, one of the Council's companies, Barking and Dagenham Trading Partnership, was a group company that itself had five subsidiaries, the accounts of all of which would have to be consolidated into the Council's group accounts.

Counter Fraud Annual Report 2019/20

The Committee considered the Counter Fraud Annual Report 2019 which brought together all aspects of counter fraud work undertaken from 1 April 2019 to 31 March 2020. The Committee sought assurance that cases of fraud which shared similar themes, traits and behaviours, were analysed so that any new lessons learnt from cases were always responded to, be it closing 'loopholes' which allowed the fraud to take place or introducing new policies and procedures which would make committing the fraud more difficult, and this was done in partnership with other teams across the Council.

Internal Audit Annual Report 2019/20

The Committee received the Internal Audit Annual Report 2019/20, which outlined the work carried out for the year ended 31 March 2020 and included the Head of Assurance's overall opinion on the work undertaken.

The Committee sought assurance around the following issues:

- That the Internal Audit team worked with external auditors when drafting the Internal Audit Plan for the year to potentially reflect any areas identified by them for inclusion in the Plan;
- The Internal Audit Team consulted the Council's contractors where relevant, to ensure that the Council's assets were protected from harm, such as cyber-security attacks; and
- The Internal Audit team would be undertaking a Covid-19 review to ensure the Council was doing all it could to recover the costs of dealing with the pandemic; for example, checking that all eligible costs had been claimed from the Government, and reviewing a sample of business rate relief applications to provide assurance that only those who were entitled had claimed relief, and any suspected cases of fraud had been referred to the relevant Counter Fraud team to investigate.

Internal Audit Response to the Covid-19 Pandemic

The Committee received a report from Internal Audit on the Council's response to the COVID-19 Pandemic and which included the impact that the pandemic had had on planned internal audit work, as well as the additional value that the team had added to the Council's overall response.

The Chair commended the response of the Internal Audit team to the Covid-19 pandemic in reviewing risks and priorities in a timely and rational manner, providing reassurance to the Committee and the Council at an unprecedented and uncertain time.

The Committee noted that:

- There were no specific national internal audit guidelines on how to respond to a pandemic of this nature, so the team had taken a measured and proactive approach in their response based on best practice;
- The Council had taken a holistic approach in supporting residents, partners and businesses respond to the pandemic to keep communities stay safe. Guidance had been issued to the Borough's faith communities and best practice across various parts of the country were being reviewed to help manage possible future local outbreaks; and
- The Council was working with its companies to ensure they were aware of how to manage any shared risks posed by the pandemic.

Internal Audit Report 2020/21 - Quarter 1 and Quarter 2

At 16th November 2020 meeting, the Committee received a report on an update on Quarter 2 of Internal Audit's work and progress against the Internal Audit Plan as of 30 September 2020, noting that most of the actions had been completed, with progress as to the others having already been reported on.

Counter Fraud 2020-21: Quarter 2 Report

On 16th November 2020, the Council's HOA presented a report which provided an update on Quarter 2 of the Corporate Fraud and Housing Investigations teams' work.

The Committee sought assurance around the Council's Whistleblowing Policy and the protections that the Council could offer to individuals coming forward. It noted that there was also a named Whistleblowing Officer that these individuals could approach. In some cases, allegations were also made anonymously, which were generally more difficult to deal with.

Members noted that the number of reported allegations of fraud overall had dropped during the Covid-19 pandemic; however, the team were currently investigating some irregular business grants claims relating to funding available to support businesses during the period that restrictions were in place to control the pandemic. The Committee commended the team's hard work at the start of the restrictions which centred around disseminating information for Council officers around what to look out for and how to safely amend Council business practices to help to prevent fraud.

Corporate Risk Register Update

The Committee considered a report on the Council's Corporate Risk Register in November 2020 with an update on how risk continued to be monitored and managed at the most strategic level. There were 14 corporate risks identified in the Register, which were outlined in the report along with their current statuses. The Independent Advisor to the Committee praised the brevity of the Risk Register, which provided a better focus as a useful tool for the Council's Senior Management.

Counter Fraud Policies & Strategy 2020

The Committee noted a report on the Counter Fraud Policies and Strategy 2020, outlining the changes that had been made in relation to the Regulation of Investigatory Powers Act Policy, as well as more minor changes that reflected the evolving nature of the Council and its structure.

Lessons learnt from the 2018/19 Accounts Audit

The first meeting of the 2021 took place on 18th January and the Committee received an update from the Council's Chief Financial Officer on the lessons learnt from the 2018/19 Accounts Audit. Both the External Auditors (BDO) and the Council's Corporate Finance Team were keen to undertake a review to better understand the reasons why delays had occurred during the 2018/19 Accounts Audit and how best to avoid a repeat situation from reoccurring. A Root Cause Analysis (RCA) approach was suggested by BDO, to provide a structured way to organise the review, with an external facilitator.

Six half day sessions were attended by Council officers and BDO auditors, to agree a problem statement and hold discussions into any underlying causes, effects, mitigations and solutions. As a result of this process, over 90 solutions had been identified and the analysis of these was currently being undertaken.

The focal point of the lessons learnt review was that the audit had not been completed in a timely fashion. This statement had enabled both Council officers and BDO to branch off into different areas that they had collectively agreed. Council officers and BDO looked into different causal paths, noting the different root causes that had resulted in the audit not being completed in a timely fashion.

Through the four elements of the cause-and-effect analysis, Council officers and BDO were able to consider each other's perspectives as to the difficulties behind the audit process, look carefully at what had caused those issues to occur and continue to branch out further to understand any problems. A lot of the solutions that had been suggested as part of the lessons learnt process had already been considered as part of the planning for the 2019/20 accounts audit.

The Council's Chief Accountant had developed a plan to deliver the 2019/20 accounts. He had already reflected on what could have been improved, with many of these suggestions having been reflected on as part of the Root Cause Analysis. Part of the process that the Council and BDO went through was to evaluate each solution

and identify which ones were feasible. If any solutions were not feasible, these were discounted and removed from the process of work.

External Audit Plan 2019/20

The Committee received BDO's External Audit Plan for 2019/20 at 18th January 2020 meeting. It was the objective of BDO to complete the 2019/20 accounts audit by April 2021 and that they had added extra resources to their team in order to facilitate this.

The Committee was informed that one of the mechanisms introduced as a result of the Root Cause Analysis had been to increase the number of meetings, at both operational and strategic levels. This had resulted in a weekly update on the progress of the audit. If there was any slippage, BDO was working with their team and with the Council's Corporate Finance team to ensure that work could be caught up.

Implications of the Redmond Review on the Council and the Audit and Standards Committee

The Committee received a report from the Chief Financial Officer on the implications of the Redmond Review on the Council and the Audit and Standards Committee. The Redmond Review was commissioned by the Government to review the transparency and quality of the local audit market, and following its publication in September 2019, the Review made several recommendations which could be considered by both Central and Local Government. Those which could be implemented by Local Authorities, without a change in legislation, were detailed within the report and were examined by the Committee.

One of the recommendations was a Statement of Summarised Accounts and to link these back to the Council's budget. The aim was to simplify the information that was in the accounts into layman's terms. This would therefore help all Members across the Council, as well as members of the public, to understand the content of the Statement of Accounts and whether the Council was delivering an effective public service that delivers value for money services.

Another reason that the Statement of Summarised Accounts were to be standardised, was to allow comparisons to be drawn between different Councils. There was currently some discretion as to what councils had to include in their statutory accounts and the format that these took, which could make comparing the statutory accounts of different councils difficult. With standardised statements across the entirety of the local government sector, it would be much easier to make comparisons between different councils.

The Committee was awaiting further guidance on the standardisation of these statements, which they were expecting to come from the Chartered Institute of Public Finance and Accountancy (CIPFA), with a possible trial for the Council's 2020/21 accounts.

There was a recommendation for the External Auditor to submit an annual report to Full Council (Assembly). However, this recommendation was notwithstanding any other reports that the Committee may have wished to produce. The Committee agreed, considering the recommendations, to produce its own annual report.

The Committee also agreed, as part of its response to the review, to appoint an independent member to the Committee with technical expertise and to formalise the facility of the Chief Executive, the Chief Financial Officer and the Monitoring Officer to meet the key audit partner at least annually.

Standards Complaints

The Committee received updates at every meeting on complaints received, and how they were being processed, throughout the year from the Head of Law.