

## **Audit and Standards Committee Annual Report 2021/22**

### **Chair's Foreword**

I am pleased to present the annual report by the Audit and Standards Committee. The Local Audit and Accountability Act 2014 sets out the framework for local authority audits and this report covers the Committee's activities from May 2021 to April 2022. The report is grouped into four topics; External Audit, Internal Audit, Counter Fraud and Standards as these were the main issues the Committee dealt with.

As the 2021/22 municipal year involved the presentation of reports relating to the previous year, Covid-19 continued to have an effect. The External Audit 2019/20 was a key focus of the Committees' attention and, unfortunately, the audit was not completed within the 2021/22 municipal year. At the time of writing, the External Audit remains outstanding.

The Committee received internal audit updates throughout the municipal year enabling it to scrutinise the Council's internal systems of control. The Committee also considered audits of schools, an important oversight role given that management of schools has an impact on the quality of education it provides.

Related to internal auditing, the Committee also examined the Council's counter fraud mechanisms with examples of successful detection especially in relation to social housing.

The Committee continues to refresh its knowledge with the help of the independent advisor who holds briefings before each meeting of the Committee. In January 2021, in my capacity as Chair, I participated in an online meeting with colleagues from Camden Council's Audit Committee relating to local authority audits, best practice and lessons learned.

Going forward, the outstanding external audit for 2019/20 will be the Committee's priority. The difficult economic situation will also present a challenge to the Council in how it manages its resources; the Committee will be a key part of the process of ensuring that public resources are managed efficiently.

I would like to thank Stephen Warren who, as the 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.

I would also like to thank Cllr Freeborn, Cllr Miah and Cllr Bremner who stood down from the Committee at the end of the 2021/22 municipal year, for their contributions.

**Cllr P Bright**

Chair, Audit and Standards Committee

## **Membership**

The Audit and Standards Committee for 2021/22 consisted of eight Councillors:

- Councillor Princess Bright (Chair)
- Councillor Adeboyega Oluwole (Deputy Chair)
- Councillor Simon Bremner
- Councillor Dorothy Akwaboah
- Councillor Josie Channer
- Councillor Irma Freeborn
- Councillor Giasuddin Miah
- Councillor Mohammed Khan

Yusuf Olow, Senior Governance Officer, supported the Committee.

## **EXTERNAL AUDIT REPORTING**

### **Audit Completion Report (ISA260) for 2019/20 Accounts**

The External Audit being undertaken by BDO continued to be a source of concern for the Committee. The Committee did receive a draft Audit Completion Report in April 2022, and it was intended that the finalised version would be provided at the September 2022 meeting of the Committee. This would then be followed by a presentation of the report to the Assembly in conjunction with this annual report.

Unfortunately, this was not possible and the Audit Completion Report 2019/20, at the time of writing remains outstanding having been beset with delays. There are several factors causing the delay some of which are beyond the control of the Council and BDO.

There is an ongoing crisis in public sector auditing and Barking and Dagenham is one of 70 councils, according to the Public Sector Audit Appointments (PSAA), whose 2019/20 audit is more than a year late. This is due to a recruitment crisis caused, according to a report by the House of Commons Public Accounts Committee, by a decline in the commercial attractiveness of public sector audits. This has put considerable pressure on existing local authority auditors who have struggled to complete audits on time. Whilst proposals have been made to address the crisis, the Committee does not expect major improvement to occur in the short term. This will be an ongoing challenge for the Committee's role in overseeing and scrutinising the Council's expenditure and governance.

There have also been localised reasons for the delay. The Covid-19 epidemic had an impact. The audit covered the period from 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020; therefore, some of the documents were kept in storage. Social distancing guidelines restricting access to the Town Hall meant there was no way to access these documents. When the initial rules were relaxed, BDO was required to contact council staff who then had to book time in the office to obtain the papers.

This slowed down the process considerably and in September 2021 BDO disclosed that they had not reviewed or cleared significant amounts of information that had

been submitted to them by the Council. This had a knock-on effect on follow up questions and additional samples. Additionally, BDO did not receive a sufficient volume of responses to requests for working papers and queries from the Council adding to the delay.

Notwithstanding Covid-19, the Committee asked what action had been taken in relation to the issues highlighted by BDO given that Council officers would be working from home. The Director of Finance acknowledged the issues and informed the Committee that action had been taken to address the issues. All documents are now electronically scanned so that staff have access when working from home, and communications with BDO had been improved in relation to working papers with regular scheduled meetings.

Covid-19 was also a source of delay in relation to personal protection requirement valuations. The process was time consuming owing to the requirements surrounding the analysis resulting from the unprecedented nature of the pandemic. As part of the work, errors had been detected and correcting the misstatements had proven to be a technical challenge.

Another cause of the delay has been staffing issues at BDO. A key member of the Audit Team was signed off sick and later resigned their post. A new audit team was appointed, however it required them to review the work that had already been carried out to familiarise themselves with the issues. This further delayed the audit.

In March 2021, the Committee was informed of a serious issue that emerged following a ruling from the Financial Reporting Council (FRC). The FRC sanctioned a public sector auditor for not properly considering the accounting for components of assets within its audit strategy in relation to Plant, Property and Equipment (PPE).

The Chartered Institute of Public Finance and Accountancy's (CIPFA) local authority code of accounting practice (the Code) required that component accounting, where component parts of an asset were treated and valued differently owing to differing economic lives, must consider any replacement or upgrading of a component part during the overall asset's life. Therefore, the value of the replaced component part must be derecognised from the overall value of the asset and replaced with the value of the replacement component part of the asset.

It had become an accepted norm in local government accounting whereby highway authorities do not account for infrastructure assets on a component basis. This was due to the difficulty of obtaining relevant details relating to the life of an infrastructure asset such as a road. Instead, assets would often be brought to the balance sheet at cost and, where components were replaced or upgraded, the new component's value would be added to the balance sheet without the value of the replaced component being derecognised.

This results in the gross book value of the entire asset increasing and the accumulated depreciation of the asset also increases over time, with no de-recognition, which could result in a material misstatement of the gross book value and the associated accumulated depreciation over time. Therefore, in these circumstances, the note in the balance sheet on PPE could have a material

disclosure misstatement within it. This was difficult to quantify as sufficiently detailed records did not likely exist. BDO stressed that this issue was not unique to Barking and Dagenham Council. In light of the FRC's ruling, the Committee was warned that this could be a material issue for the Council.

A paper on the issue was considered at the Local Government Technical Network (LGTN) on 24<sup>th</sup> February 2021, which included CIPFA. It was agreed by all parties that, until these issues were resolved, auditors would put their opinions on hold regardless of the year the audit related to. Therefore, no opinions would be signed off in cases where there are material infrastructure assets on the balance sheet until an appropriate response to the matter has been determined. Barking and Dagenham Council's infrastructure assets had a net book value of circa £100 million and the materiality level was circa £11 million. Therefore, the Committee was informed that the audit could not be completed pending the review.

CIPFA has since issued new guidance following the ruling allowing the audit to restart, however the delays means that the 2019/20 audit was still outstanding by the end of the municipal year 2021/22.

The Committee, at the time of writing, has been informed by BDO that the 2019/20 would be completed by March 2023. It is hoped that this will finally conclude the External Audit 2019/20 and enable the Completion Report to be presented to the Assembly in May 2023.

### **Lessons Learned from the Audit Completion Report (ISA260) for 2019/20 Accounts**

Whilst the delay to the 2019/20 audit is disappointing, it is important to note that improvements have been made in the audit process. The Committee heard from BDO and the Council's Finance Officers on the lessons learned from the previous external audit that had also been subject to delays. As with the 2019/20 Audit, some of these delays were beyond the control of the Council and BDO. However, a Root Cause Analysis was undertaken joint by the Council and BDO and feedback was provided to the Committee.

A structured review, overseen by an external facilitator to avoid bias from the Council and BDO, was carried out and the issues identified included:

- The Audit and Standards Committee had not confirmed their acceptance of the uncorrected misstatements that had been identified in the Audit;
- BDO were unable to get technical clearance from the Technical Standards Group;
- BDO was unable to obtain the level of assurance required; and
- The Audit Plan requirements could not be met.

90 potential solutions had been identified and 68 had been taken forward, of which 42 have been implemented. A schedule to implement the outstanding actions had been drawn up, including a target implementation date and there were clear lines of responsibility in terms of ownership. 22 actions were rejected mainly due to

duplication or that the action proposed was substantially covered by another action.

The Committee, holding itself to account, sought clarification on its role in relation to the delay to the Audit. The Director of Finance indicated that more regular meetings with the Chair and other Committee members may have assisted in reducing or avoiding delays. This was related to wider communication issues and resourcing.

The Committee has since taken action to reduce this risk; the Chair is in regular contact with BDO and the Council's Finance Team and the Committee schedules additional meetings or changes meeting dates where necessary to facilitate decision making. BDO had also introduced a new tool that enabled the sharing of working papers and where progress could be updated in real time.

Another issue was complexity. That analysis concluded that insufficient information was given to BDO on the resources required to audit the Council and its subsidiaries. Whilst improvements have been made on dealing with the complexity the subsidiaries pose, the 2019/20 audit has shown it remains an issue. The Committee intends to review its terms of reference with the intention of clarifying its role in relation to the auditing of the subsidiaries.

The challenge going forward is to ensure that actions are implemented but also evolve with regulations and requirements as regular Root Cause Analysis would be unrealistic. Overseeing the implementation of the analysis's conclusions will continue to be a focus of the Committee's work.

### **External Auditor Appointment beyond 2023/24**

The Committee agreed that the Council continue to be a participant in the procurement process overseen by PSAA on the basis that many of the audit firms would be involved with the PSAA's procurement process. Therefore, the Council would not necessarily be able to engage a firm that would not otherwise have been considered, nor would necessarily result in value for money.

## **INTERNAL AUDIT REPORTING**

### **Internal Audit Report 2020/21**

The Committee began its oversight of internal auditing by reviewing the final report of internal auditing for the previous municipal year. The report was presented by the Head of Assurance (HoA)

The Committee agreed, in the previous municipal year, to an internal audit plan of 50 audits and the HoA confirmed that 44 audits had been undertaken. The HoA assured the Committee that this did not mean that the internal audit team had done less work than had been agreed and that the total number of audit days were maintained as agreed in the plan.

The HoA, as the Council's Chief audit executive, was required to give an overall opinion on the Council's internal control systems. The HoA's assessment was that the Council's internal audit systems were generally satisfactory with some improvements required. The Committee probed the basis of the rating and during the municipal reviewed the implementation of improvements outlined in the report.

The Committee also reviewed the Internal Audit plan for 2021/22. The Committee requested that all changes to wording of procedures from the previous year be highlighted to enable the Committee

The Committee heard that Internal Audit was entirely risk-based meaning that work was focused on areas of highest risk. This meant that some planned audits were removed from the plan and others added as the year progressed. The HoA added that Covid-19 affected the plans as it had changed its way of working.

In regard to the outcome of the audits for 2020/21, the HoA disclosed that eight 'limited assurance' reports and one 'no assurance' report had been issued. The 'no assurance' report related to Targeted Early Help. The report was commissioned by the Cabinet Member for Children's Services and was undertaken by an independent expert who was commissioned by Children's Services but was overseen by the HoA.

Clarification was sought on the action plan relating to Targeted Early Learning in relation to deadlines for implementation and the role of the HoA in enforcing them. The HoA responded that his report highlighted the high level actions and these were connected to action plans setting out how Children's Services will implement them. The HoA clarified that he did not have any operational responsibility as this lies with Children's Services. The HoA's role would be to independently verify and gain assurance that the action plan was being properly implemented. The Committee monitored the implementation of the improvement plan.

A robust approach by the Committee was taken in relation to the schools audit focusing on identified risks regardless of the overall audit rating. This was the case at Manor Junior School where the Committee sought assurance in relation to the number of issues highlighted as medium risks. The school had an action plan to address the medium risks and a full audit would be undertaken to ensure that the action plan is implemented. The Committee continued to receive updates on the situation during the municipal year as the school addressed its weaknesses.

### **Internal Audit Updates 2021/22**

The Committee examined the internal audit plan for 2021/22. The Council operate a risk-based internal audit plan and the plan was subject to amendment where the risks changed. The Committee, in addition to issues raised during the updates, oversaw the implementation of measures to address issues raised in the Internal Audit Report 2020/21 mentioned above. The Committee gave special attention to school audits given the Council's plan to improve outcomes and opportunities for young people in the borough.

A major change was the transition from a cyclical audit approach, where every school was audited on a three yearly basis, to a risk-based one and the Committee requested further information on the justification, implementation process and the outcome aims. The HoA explained that the risk-based approach was more flexible since it was partly based on Ofsted reports. The HoA also noted that some schools had managerial stability in relation to staff turnover, whilst others did not. The HoA noted that, where there were teaching problems, these were usually accompanied by administration issues. The risk-based approach enabled auditors to focus on where there were issues. However, the HoA assured the Committee that schools would be audited at least once every three years, as the risk-based approach took into account the amount of time that had passed since a school had been audited.

The internal audit team was being expanded and the HoA noted that as school audits were an audit of a whole business area, since it involved audits of human resources, administration and finance etc., that this would assist the Internal Audit Team's development of its own audit capabilities. However, the review was still ongoing and no proposals had been finalised.

The Committee received updates, both to the overall plan and the audits as the municipal year progressed. The Committee in particular focused on the progress of the implementation of audit findings from 2020/21, as the updates highlighted incidences where this had not been completed by the due date.

## **COUNTER FRAUD REPORTING**

### **Counter Fraud Annual Report 2020/21**

The Committee followed the work of the Internal Audit team in detecting and preventing fraud in 2020-21. For reporting purposes, counter fraud is divided into housing fraud and all non-housing related fraud is reported under corporate fraud.

The Committee heard about the work undertaken with the Business Rates Team relating to Covid-19 grants to ensuring that only businesses that were entitled received the grant. Support work was also undertaken with the Care and Support Team in relation to Direct Payments to ensure that residents who receive such payments used them as intended.

In relation to housing fraud, The Committee commended Internal Audit in the recovery of five council properties that were being improperly used saving the Council circa £500k in fraudulent benefit payments.

### **Counter Fraud Updates 2021/22**

The Committee received regular updates during 2021/22 and was informed that investigatory work was back to its pre-Covid-19 levels. In relation to corporate fraud, the HoA highlighted a company that purportedly claimed it was recovering overpayments of business rates on behalf of businesses that had paid their rates and, as a result, gained circa £22k of funds that they were not entitled to. Some of this money was recovered from the banks where the money had been paid into, but the Council had been unable to recover all of the money. The police had been

contacted and were presently investigating. The HoA pointed out that this was a national problem, and that the Council was working with Counter Fraud officers from other councils who had also been targeted.

The Committee challenged officers on the approach and safeguards relating to such payments and the HoA acknowledged that the Business Rates team were too quick to pay out and did not follow all procedures. However, the HoA noted that the fraud occurred when the Business Rates team was under pressure during the pandemic. Assurance was given that action had been undertaken to prevent a recurrence, and the list of companies in credit with their business rates was no longer published online. The Committee were assured that the Business Rates team would be monitored going forward.

### **Risk Management Update**

The Committee's role includes overseeing and assessing the Council's approach to potential risks. It is the responsibility of all managers to manage risks within their remit and the HoA explained that Internal Audit provide support and advice to managers in risk management but is not responsible management of risks themselves. Each risk owner had undertaken an assessment of their area, and this was discussed at a corporate level to ensure regular monitoring.

Information was provided on the fourteen risks on the risk register at the last review. The Committee noted that a major source of risk is cybersecurity and heard how the Council had taken action to both minimise the change of a successful cybersecurity attack, and its response in the event that such an attack is successful.

## **STANDARDS**

### **Review of Gifts and Hospitality Registers**

The Committee reviewed the registers and was updated, by the Head of Law (HoL) on the guidance provided to Councillors in relation to gifts and hospitality.

### **Standards Complaints**

The Committee also received updates at every meeting on complaints received and how they were being processed throughout the year from the HoL.

### **Recruitment of Reserve Independent Person**

Members agreed to recommend to Assembly that a limited recruitment cycle be carried out for a reserve Independent Person with the aim of increasing diversity and inclusion.