

Notice of Meeting

AUDIT AND STANDARDS COMMITTEE

Monday, 27 July 2020 - 5:00 pm
Meeting to be held virtually

Members: Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Simon Bremner, Cllr Josie Channer, Cllr Irma Freeborn, Cllr Kashif Haroon, Cllr Mohammed Khan and Cllr Emily Rodwell

Independent Advisor: Stephen Warren

By Invitation: Cllr Dominic Twomey

Date of publication: 18 July 2020

Claire Symonds
Acting Chief Executive

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Please note that this meeting will be webcast to enable the press and public to listen in to the proceedings of this 'virtual' meeting'. To view the webcast click [here](#) and select the relevant meeting (the weblink will be available at least 24-hours before the meeting).

AGENDA

- 1. Apologies for Absence**
- 2. Declarations of Interest**
- 3. Minutes - To confirm as correct the minutes of the meetings held on 27 April 2020 (Pages 3 - 8)**
- 4. Approval of the Statement of Accounts 2018-19 and BDO's ISA260 Report (Pages 9 - 91)**
- 5. Schedule of Subsidiaries Report based on 2018/10 figures (Pages 93 - 99)**
- 6. Counter Fraud Annual Report 2019/20 (Pages 101 - 106)**
- 7. Internal Audit Annual Report 2019/20 (Pages 107 - 129)**

8. **Internal Audit Response to the Covid-19 Pandemic (Pages 131 - 135)**
9. **Standards: Complaints Update Report (Pages 137 - 139)**
10. **Work Programme 2020/21 (Pages 141 - 142)**
11. **Any other public items which the Chair decides are urgent**
12. **To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted**

Private Business

The public and press have a legal right to attend Council meetings such as the Audit and Standards Committee, except where business is confidential or certain other sensitive information is to be discussed. The list below shows why items are in the private part of the agenda, with reference to the relevant legislation (the relevant paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 as amended). ***There are no such items at the time of preparing this agenda.***

13. **Any other confidential or exempt items which the Chair decides are urgent**



Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

A New Kind of Council

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

Empowering People

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

Inclusive Growth

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

Citizenship and Participation

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

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MINUTES OF AUDIT AND STANDARDS COMMITTEE

Monday, 27 April 2020
(5:00 - 6:13 pm)

Present: Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Toni Bankole, Cllr Simon Bremner, Cllr Josie Channer, Cllr Rocky Gill, Cllr Mohammed Khan and Cllr Faraaz Shaukat

Also Present: Stephen Warren, Cllr Dominic Twomey and Cllr Irma Freeborn

16. Declarations of Interest

There were no declarations of interest.

17. Minutes - 3 February 2020

The minutes of the meeting held on 3 February 2020 were confirmed as correct, subject to the following amendments:

- Under minute 11, the sentence 'The accounts for all subsidiaries, except Reside, were complete' should read, "The **audit of the** accounts for all subsidiaries, except Reside, were complete"; and
- Under minute 11, in the fourth bullet point, the question marks should be replaced with the word 'confirmation'.

18. Interim Audit Completion Report and Certificate of Grants and Claims

The Council's Chief Accountant introduced the Interim Audit Completion report that had been circulated as 'Supplementary 1' to the main agenda, stating that substantial progress had been made in the external audit of the Council's 2018/19 accounts, with the Council now in a position to make the adjustments required to achieve an unqualified opinion.

The Senior Manager representing the Council's external auditors, BDO, stated that:

- The audit was currently going through the Council's and BDO's quality review processes;
- Group accounts were in the process of being audited and the Interim Audit Completion report did not include any errors relating to that area;
- BDO had identified creditors, debtors and the misclassification of transactions between the Council and the various group entities as significant risks in the audit, which had resulted in more detailed work having to be carried out;
- The current net effect of uncorrected misstatements was £30.9 million on the comprehensive income and expenditure statement and £78.6 million on the balance sheet but the Council's Finance Team were working to reduce the number and value of uncorrected errors so that an unqualified opinion could be given;

- BDO had received an updated set of the 'Statement of Accounts', which it was in the process of reviewing;
- Outstanding actions included undertaking a full review of the prior period adjustments and their total impact, reviewing the group accounts and agreeing any further adjustments with the Council's Finance Team;
- A draft letter of representation from the Council, which was appended to the report, asked the Council to confirm a number of matters relating to the audit and would be further updated once BDO had concluded its detailed audit work; and
- BDO was independent of the Council and had no conflict of interest in undertaking the audit.

The Chair stated that she wished to put forward the following observations on behalf of the Committee and the Independent Advisor:

- There were concerns at the further delays in the finalisation of the audit of the Council's 2018/19 accounts since the last meeting of the Committee in February 2020 - regular updates would have kept the Committee better informed of the reasons for delay. She was aware that the Covid-19 pandemic would have impacted progress and asked officers to provide further detail for the Committee's information;
- In relation to the audit of the 2019/20 accounts, officers and BDO should work together to provide a detailed timetable to the Committee;
- Officers should prepare an action plan in response to the recommendations made by BDO in their Interim Audit Completion report;
- The Committee would like a future report on the additional fees proposed for the external audit of the Council's 2019/20 accounts, together with an explanation of the proposed fees; and
- The Finance Director should liaise with the Chair prior to the signing of the final version of the letter of representations on the Council's 2018/19 accounts, to ensure that all the matters identified had been addressed.

In response to the point regarding the delay in the progress of the audit, the Finance Director stated that the day-to-day functions of the Finance Team had been significantly impacted by Covid-19, as they were supporting the Council's overall response to the pandemic, which included capturing the expenditure relating to the pandemic and producing various reports for London Councils and the Department for Housing, Communities and Local Government, which required significant resources. Against that backdrop, the Team were working hard to complete the 2018/19 audit and move on to preparing the 2019/20 accounts.

A BDO Partner assured the Committee that BDO had revisited the timetable for the completion of the audit of the 2018/19 accounts, having received the second version of the Statement of Accounts and the group accounts, and had re-programmed the reviews required, which were due to take place in the first two weeks of May. It was anticipated that BDO would be in a position to give an opinion in the week beginning 18 May 2020.

In response to the Chair's other observations, officers stated that:

- There would be an opportunity to discuss the timetable for the audit of the Council's 2019/20 accounts under item 7 on the agenda;

- As the audit of the 2018/19 accounts had not been concluded, BDO's proposed additional fees had not been discussed in any detail; however, this information could be provided once discussions had taken place with BDO; and
- Appropriate arrangements would be made with the Chair before the final version of the letter of representation was due to be signed.

The Committee **resolved** to note the Interim Audit Completion report.

19. Accounting Policies for the 2019/20 Statement of Accounts

The Council's Chief Accountant presented a report requesting approval for the accounting policies for the 2019/20 Statement of Accounts, which was a new initiative to reflect good practice and provide the Committee an opportunity to fully understand the foundation for the annual Statement of Accounts, put forward amendments and seek clarification.

In response to a question, the Chief Accountant stated that the policies in the report focussed on the Council as a single entity. However, going forward the intention was to include the policies for the group accounts and pension fund accounts, which were separate.

The Chair asked whether officers could undertake a review of the accounting policies and their presentation prior to the preparation of the 2020/21 accounts and report back to the Committee before 31 March 2021. The Finance Director acknowledged the request and commented that it would provide an opportunity to check that the presentation of the accounts was in line with the guidance issued by CIPFA last year as well as ensure that the policies reflected that the Council had a large number of subsidiaries.

The Independent Advisor to the Committee referred to accounting trends in both the public and private sector and recommended that the Council should produce accessible policies that were specific to individual entities and for that work to start early in the financial year so that changes could be adopted well in time for the 2020/21 Accounts.

It was noted that the Independent Advisor to the Committee would put in writing to officers some minor changes that he felt were needed to the accounting policies.

The Committee **resolved** to approve the accounting policies applicable to financial year 2019/20, subject to the changes identified by the Independent Advisor.

20. Preparation of the 2019-20 Statement of Accounts & External Audit

The Council's Chief Accountant presented a report on the preparation of the 2019-20 Statement of Accounts and external audit.

In response to a question, the Chief Accountant acknowledged that there was a risk that the audit of the 2019/20 accounts would be delayed; however, the Finance Team's focus on completing the audit of the 2018/19 accounts before the end of May and the extensions to national deadlines for both the draft accounts and the audited accounts, would act as mitigation, as this would enable the Team

to undertake thorough quality assurance.

In response to a question from the Chair, the Chief Accountant stated that he would aim to provide a schedule of the Council's subsidiaries (including their activities and turnover) to the next meeting of the Committee. He asked Members to note that there was a section in the 2018/19 accounts entitled 'Related Party Disclosure Notes' which explained the Council's relationship with its subsidiaries and their relationships with each other.

The Committee **resolved** to note the report.

21. External Audit Plan 2019/20

The BDO Partner gave a verbal update and advised that BDO was currently unable to provide a written audit plan for the Council's 2019/20 accounts, primarily because it would not be possible to do a reasonably accurate risk assessment relating to the audit until the findings of the 2018/19 audit were finalised. Now that a plan to complete the 2018/19 audit had been agreed, it was hoped that it would be feasible to present an audit plan for 2019/20 at the Committee's next meeting in July 2020.

The Chair asked BDO and officers to expand on what lessons had been learnt from the 2018/ 2019 audit process to ensure that the 2019/20 process would be smoother. The BDO Partner stated that, as the Committee was already aware, the preparation of the accounts for the Council's subsidiaries was a complex task and posed a significant challenge; however, lessons had been learnt and a key point would be better planning for the audit of subsidiaries' accounts to make the process smoother and more efficient. It would also be important to ensure that the internal quality control reviews of all accounts were properly complete before the draft accounts were presented for audit and to timetable the work appropriately. Finally, there were some legacy issues which had already been alluded to (such as debtors and creditors) which would be picked up by the Council's Finance Team. The Council's Chief Accountant agreed and welcomed BDO's extremely thorough approach to the audit.

The Cabinet Member for Finance, Performance and Core Services stated that there were issues and challenges nationally with audit processes this year and asked whether any lessons could be learnt from other boroughs, referring particularly those who had had consolidated the results of subsidiaries for a number of years. The BDO Partner confirmed that some lessons relating to compliance and good practice from other boroughs had been passed on to the Finance Team which had led to revisions to the 2018/19 accounts. The Partner also assured Members that BDO continually evaluated the audit process, both internally and with the client, and liaised with colleagues across the sector.

22. Internal Audit Charter, Strategy and Plan 2020/21

The Council's Head of Internal Assurance presented a report on the Council's Internal Audit Charter, Strategy and Plan 2020/21.

The Head of Assurance stated that the Charter, which required approval by this Committee annually, defined the purpose and authority of the Internal Audit Team

and laid out its independence and objectivity within the organisation. The Strategy set out how the Team delivered its work, in line with the Charter, with a greater emphasis on operations, including resourcing, approach to preparing and delivering the audit plan and how quality assurance would be applied to ensure effectiveness. Changes had been made to the Strategy to ensure robust and independent reporting of the internal audit work. Finally, the Audit Plan detailed the audits to be undertaken in the year ahead.

The Head of Assurance confirmed that the contents of the document were subject to continual review to reflect changing risks and cited the current risks relating to the Covid-19 pandemic and the potential high levels of staff absence as an example. All managers had been issued guidance on how to maintain effective internal control arrangements and for making payments to suppliers. Furthermore, there had been reviews of grants to businesses and hardship payments and his Team would also be looking at other areas of unusual expenditure arising from the pandemic.

In response to further questions, the Head of Assurance stated that:

- A review of the Council's Risk Register in relation to the effects of a pandemic was underway and would be presented to this Committee in due course; and
- 'Contingency days' in the Audit Plan were held back for areas of unexpected risk and would be assessed on a priority basis.

The Committee and the Independent Advisor welcomed the update on the Team's response to the Covid-19 pandemic and asked the Head of Assurance to provide a further update to the next meeting.

The Committee **resolved** to:

- (i) Approve the Internal Audit Charter;
- (ii) Approve the Internal Audit Strategy 2020/21 onwards; and
- (iii) Approve the Internal Audit Plan 2020/21.

23. Information Governance Annual Report

The Chief Operating Officer presented a report which provided an insight into the work undertaken by the Council's Feedback team and covering aspects such as complaints, Members' casework, Freedom of Information (FOI) and Subject Access Requests (SAR).

The report detailed how the Council performed against targets in relation to these areas and how it identified and implemented service improvements. The Chief Operating Officer also advised on a number of relevant issues relating to the Covid-19 pandemic, including the allocation of some members of the Feedback team to support other Council services, such as the Registrar's Service.

In response to questions, the Chief Operating Officer advised that:

- Over the last year, the additional resources that had been put into Members' casework had significantly improved the number of cases being dealt with within the 10 working day target period. Further steps were also being taken to improve performance around how the Council dealt with corporate complaints and it was noted that the 'My Place' service had put in a new structure, which had led to early improvements which were being shared across the Council;
- The Council had relayed to its residents the positive action it was taking via the 'BD CAN' initiative to support residents through the Covid-19 pandemic;
- In terms of obtaining general feedback from residents, there had been far greater usage of digital technology since the lockdown to control Covid-19, and that would likely continue even after the restrictions were lifted;
- Relevant Cabinet Members were informed when complaints relating to their portfolio were lodged, to help avoid duplication;
- Even though only a small number of SARs were received, they were resource intensive due to the volumes of paperwork involved and the need to redact certain information.

The Committee **resolved** to note the report.

24. Standards: Complaints Update

The Head of Law presented a report updating the Committee on complaints received against Members of the Council.

In response to a question, the Head of Law stated that the usual practice was to update the Committee when a complaint reached the next milestone in the complaints process.

The Committee **resolved** to note the report.

AUDIT AND STANDARDS COMMITTEE**27 July 2020**

| | |
|---|--|
| Title: Approval of the Statement of Accounts 2018-19 and BDO's ISA260 Report | |
| Report of the Finance Director | |
| Open Report | For Decision |
| Report Author: Thomas Mulloy, Chief Accountant | Contact Details: E-mail: Thomas.Mulloy@lbbd.gov.uk |
| Accountable Director: Philip Gregory, Finance Director (Section 151 Officer) | |
| Accountable Strategic Leadership Director: Philip Gregory, Finance Director (Section 151 Officer) | |
| Summary | |
| <p>The Council's draft accounts have been subjected to detailed audit by our external auditors, BDO. Whilst the audit has yet to be completed, as at the date of preparing this report, BDO are proposing to issue an unqualified audit opinion for the Statement of Accounts, including the Pension Fund 2018-19.</p> <p>In accordance with the Accounts and Audit Regulations, the accounts and the Annual Governance Statement are now being presented to this Committee for their consideration and approval prior to publication.</p> | |
| Recommendation(s) | |
| <p>The Audit and Standards Committee is recommended to:</p> <ul style="list-style-type: none"> (i) Review and note the Audit Completion Report (ISA260) from our external auditors, BDO, as set out at Appendix 1 to the report; (ii) Review and approve the draft Statement of Accounts for the year ended 31 March 2019, as set out at Appendix 2 to the report (which is to follow); (iii) Approve the Annual Governance Statement for the year ended 31 March 2019, as enclosed in the Statement of Accounts (Appendix 2); and (iv) Confirm that the final Statement of Accounts 2018/19 be published as soon as practically possible and authorise the Finance Director, in consultation with the Chair, to make any changes to the draft accounts that may be agreed with the Council's external auditor. | |
| Reason(s) | |
| <p>It is a statutory obligation for the Council's Statement of Accounts to be produced and audited, and that the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council</p> | |

1. Introduction and Background

- 1.1 The publication of the Statement of Accounts is governed by the requirements of the Accounts and Audit Regulations. These require the Statement of Accounts to be certified by the Council's Section 151 officer (Finance Director) as presenting a true and fair view of the financial position of the Council in each year. The accounts must then be submitted for external audit to publish audited accounts.

2. Audit of Accounts

- 2.1 Details of the audit progress to date can be found in Appendix 1, BDO's Audit Completion Report (ISA260).
- 2.2 At the time of this report, work is still on-going on the Council's Group Accounts 2018-19. Given it is the first year of consolidation and the fact each subsidiary follow different accounting framework, it has been a significant challenge to consolidate all into the Group Accounts. More details are provided at Appendix 1.
- 2.3 There are 19 audit differences totalling £9.2m of which only £0.4m are factual errors and the remainder are matters of judgement or projected errors based on extrapolation. These will not be adjusted in the accounts given they fall under the materiality threshold.

3. Management Representation Letter

- 3.1 It is a requirement of external audit that the Section 151 Officer signs a letter of representation confirming that he has the responsibility for the proper administration of the financial affairs of the authority and that the duties that this entails have been undertaken. The draft letter will be signed nearer to the date of approval of the accounts.

4. Publication of the Statement of Accounts

- 4.1 If the recommendation to approve the Accounts is agreed by this Committee, BDO will be able to provide their formal opinion on the accounts and formally conclude the audit. The accounts will then be placed on the Council's website.

5. Financial Implications

- 5.1 These have been addressed in the body of this report.

6. Legal Implications

- 6.1 The Local Audit and Accountability Act 2014 (the '2014 Act') requires that the Council as a relevant body must have its accounts audited. The procedure is set out in the Accounts and Audit Regulations 2015 (the 'Regulations'). Regulation 9 sets out a timetable and requires certification by the Council's responsible finance officer of the statement and then consideration by a committee to consider the statement and approve by resolution.
- 6.2 Furthermore, specified relevant local authorities¹ are required under Regulation 6(1) (b) to prepare an Annual Governance Statement ('AGS').

Governance is defined by CIPFA / SOLACE2 as:

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

and

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entities objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

- 6.3 The Regulations require the AGS be approved by a resolution of a Committee of the Council.
- 6.4 Following approval the Council must publish the statement of accounts, the AGS as approved and a narrative statement by the Council on its financial performance, and economy, efficiency and effectiveness in the use of its resources over the financial year.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix 1 – Audit Completion Report (ISA260) from BDO
- Appendix 2 – Draft Statement of Accounts 2018/19 – **to follow**

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Report to the Audit and Standards Committee
**LONDON BOROUGH OF BARKING
AND DAGENHAM COUNCIL**

Audit Completion Report: Year ended 31 March 2019

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WELCOME

Introduction

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We have the pleasure of presenting our Audit Completion Report to the Audit and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of our progress to date of the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

The audit is substantially complete with no further significant amendments expected by the date of the Audit and Standards Committee. We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input. A final version of this report will be issued upon completion of the audit and receipt of the revised, final version of the Council's statement of accounts.

If you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

BDO LLP

16 July 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the [Audit Committee] and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

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Overview

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Status

Our audit fieldwork is substantially complete. Outstanding matters are listed on page 66.

From our previous Interim Audit Results Report, progress reports and our letter regarding significant deficiencies in internal control, issued on 22 October 2019, Members will be aware that there have been significant challenges to swift completion of the audit. In particular with regard to the completeness and quality of the draft financial statements and supporting working papers.



This resulted in additional audit testing being necessary and significant changes to the draft financial statements.

To date our work has identified 86 numerical errors, of which eight are material and 11 relate to errors in the prior period. Due to the varying size of these misstatements, we have grouped them where we can in our adjusted and unadjusted schedules included in the appendices of this report.

This report does not include the errors identified as part of our audit work on the group financial statements. We are continuing to work through numerous consolidation issues with the Council and so remain unable to quantify the impact of errors at group level.

We will provide a verbal update on the progress of the group consolidation audit when presenting this report to the Audit and Standards Committee.

Audit risks

In addition to those reported in our Audit Plan additional significant audit risks were identified in our updated risk assessment, and from some of our early audit findings, in the following areas:

- Creditors;
- Debtors; and
- misclassification of transactions between the Council and its group entities.

Detail is set out on pages 16 to 18.

No restrictions were placed on our work.

Audit report

The net value of uncorrected misstatements identified during the audit is £9.2m in the Comprehensive Income and Expenditure Statement (CIES) and £9.2m in the Balance Sheet (BS), which is below our materiality tolerance of £11m for the single entity accounts.

The net value of corrected misstatements is £65m, analysed as:

- Factual (net): CIES (£90.2m) / BS £90.2m
- Judgmental (net): CIES £25.2m / BS (£25.2)m

Management have amended the correcting adjustments to address this issue.

The group accounts audit is still in progress and the results are not included in the figures above.

THE NUMBERS

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Final materiality

Group final materiality was determined based on group gross expenditure.

There were no changes to final materiality and triviality applied to the accounts from that reported in our Audit Plan.

We have considered group and component materiality in relation to the final set of accounts and confirm it remains appropriate.

Audit scope

Our approach is designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

Material misstatements

Our audit identified a significant number of material misstatements, including those that are material by nature, these included but were not limited to (the values have been included as absolute below and may contain more than one error per area reviewed):

- Group accounts (numerous material misstatements have been identified and corrected, details are provided in the financial statements section of this report);
- Grants £187.3m (revenue and capital): £186.8m corrected and £457k uncorrected;
- Borrowings: £42.6m;
- Property, Plant & Equipment - valuation: £116.6m; and
- Property, Plant and Equipment - Assets Under Construction: £31.8m.

More information relating to these misstatements is included in the Financial Statements section starting on page 7.

Unadjusted audit differences

The net value of uncorrected misstatements is £9.2m in the CIES and £9.2m in the BS in the single entity accounts. We requested that management make correcting adjustments for all of these misstatements. However, management has proposed that no further amendments will be made as the remaining uncorrected misstatements are not material to the accounts as a whole.

Four classification errors were identified (£4.2m), which had a nil impact on the net value of uncorrected misstatements reported.

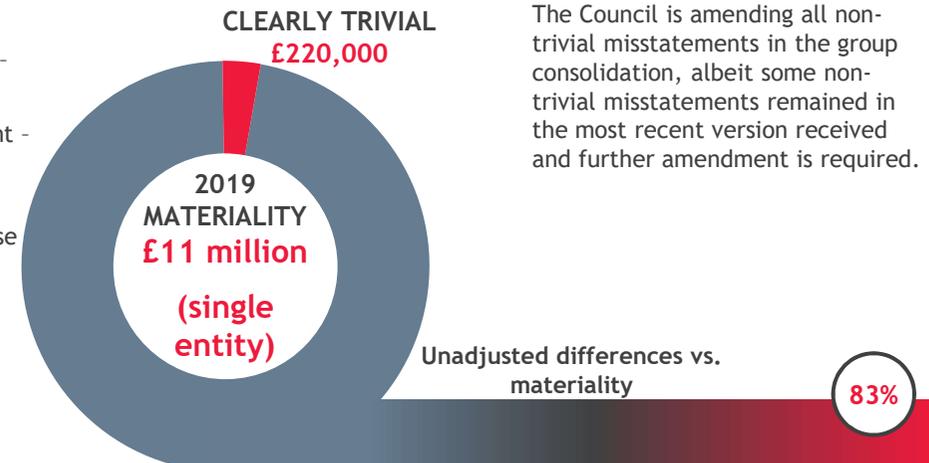
One error (£2.3m) was identified as judgmental in relation to the impact of depreciation and revaluation of assets under construction not being reclassified when brought into use.

Nine errors (£7.2m) were projected errors from our work over debtors, creditors, valuation and income and expenditure testing.

The errors above, if uncorrected, will carry forward to 2019/20 as a cumulative misstatement of £9.2m

(Uncorrected Audit Differences: 5 - 19)

Our group accounts work is still in progress due to ongoing consolidation issues that we are working with the Council to resolve. The Council is amending all non-trivial misstatements in the group consolidation, albeit some non-trivial misstatements remained in the most recent version received and further amendment is required.



OTHER MATTERS

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Financial reporting

- Our work on the group accounting policies is ongoing. Whilst auditing the group consolidation we identified inconsistencies between single entity accounting policies and application of accounting policies at group level. This requires either accounting adjustments or revised accounting policy disclosure in the group accounts. As we continue to resolve consolidation issues we may identify further accounting policy issues and so are yet unable to conclude our work on group accounting policies.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are considered sufficient.
- The Annual Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

- Significant control deficiencies have been identified in relation to internal review of working papers and the processes and controls in relation to the production of the financial statements. In accordance with ISA 265 this was reported to the Audit and Standards Committee on 22 October 2019.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.



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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 21 December 2018 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included further significant risks relating to creditors, debtors and the misclassification of transactions between the Council and its group entities. These are those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

| Audit Risk | Risk Rating | Significant Management Estimates or Judgement | Use of Experts Required | Error Identified | Significant Control Findings | Discussion points / Letter of Representation |
|--|-------------|---|-------------------------|------------------|------------------------------|--|
| Management override of controls | Significant | Yes | No | No | No | No |
| Revenue and Expenditure recognition | Significant | Yes | No | Yes | Yes | No |
| Non-current asset valuations | Significant | Yes | Yes | Yes | No | Yes |
| Pension liability assumptions | Significant | Yes | Yes | Yes | No | Yes |
| Group accounts | Significant | Yes | No | Yes | Yes | Yes |
| Creditors | Significant | Yes | No | Yes | Yes | No |
| Debtors | Significant | Yes | No | Yes | Yes | No |
| Misclassification of transactions between the Council and group entities | Significant | No | No | Yes | Yes | No |

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud; and
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

Results

Our testing has:

- Not identified any inappropriate journals and did not identify any significant transactions that were considered to be outside the normal course of business for the Council or appeared unusual;
- Confirmed that the policy in relation to the calculation for bad debt provision varied and had not been reviewed recently, we have raised a recommendation in relation to this matter on page 31;
- Not identified any issues in relation to significant transactions that were outside the normal course of business for the Council or that may have otherwise appeared unusual; and
- Not identified any biases in relation to accounting estimates or any circumstances producing bias which may result in a risk of material misstatement due to fraud.

| | |
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| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
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REVENUE AND EXPENDITURE RECOGNITION

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Revenue and Expenditure recognition

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| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
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Risk description

Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the accuracy and existence of income and expenditure.

In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence and accuracy of fees and charges recorded in the CIES and the completeness of expenditure.

In the public sector, auditors focus their consideration of the risk of fraud and error on expenditure. As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants subject to performance conditions to confirm that the conditions of the grant were met before the income was recognised in the CIES;
- Tested an increased sample of fees and charges to ensure income had been recorded in the correct period and that all income that should have been recorded had been recorded; and
- Tested an increased sample of transactions to ensure that expenditure had been recorded in the correct period and was considered valid and appropriate.

Results

Our testing has:

- Noted that the supporting evidence for this area was poor which has resulted in a significant number of changes to the original draft financial statements. Issues noted included; amounts not agreeing to the amounts recognised, grants recognised incorrectly within the financial statements where conditions were not met, non-grant income being recognised as grant income and grants being omitted from the grant figures disclosed within the statements. Our work has identified 56 individual errors in recognition of grant income totalling £9.5m (management have corrected all but £457k reclassification of this amount).
- Our work identified that the Dedicated School Grant had been double counted in 2018/19 and 2017/18 on the face of the CIES, in 2018/19 this resulted in an error of £176.8m and £168.1m in 2017/18. A prior period adjustment is required in relation to this error.

REVENUE AND EXPENDITURE RECOGNITION CONTD.

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Results Contd.

- Identified three income and expenditure transactions around the year end which had been accounted for in the incorrect period. This included one cut off error in relation to income of £2.9m and two errors in relation to expenditure totalling £73k all of which were excluded from the 2018/19 financial year when they should have been included. Management have corrected the £2.9m income error.

NON-CURRENT ASSET VALUATIONS

Non-current asset valuation

Risk description

Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council has appointed an external valuer to carry out revaluations on assets as at 31 March 2019.

Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation of assets valued in year was appropriate;
- Checked that the beacon basis used to value the housing revenue account assets had been appropriately applied;
- Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions;
- Checked that the accounting policy adopted in relation to the valuation of assets was reasonable and that the aggregate of any assets that are not revalued in year did not create a material expected movement when compared to independent data; and
- Reviewed the reasonableness of assumptions used in any roll forward of asset values from valuation date to the balance sheet date and the value of assets not included in the valuation exercise.

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| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
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Results

Our testing did not identify any issues in relation to the instructions provided to the valuer and assessment of the expertise of the valuer.

We confirmed the valuation basis of assets valued in 2018/19 was appropriate.

Our audit work confirmed the beacon basis used to value council dwellings (housing revenue assets) was appropriately applied for existing assets.

Our sample testing of the accuracy of the information in relation to input data provided to the valuer identified 21 discrepancies between the submitted data and the data held by the Council, the differences noted resulted in a £1.1m difference in valuation which extrapolates to a £1.7m understatement of asset values. Management do not intend to correct this misstatement.

Our testing of investment properties identified three assets that had been included within the draft financial statements but had been demolished in the previous financial year. This has resulted in an overstatement of the value of investment properties in the current year and also in the prior period comparatives of £1.9m. Management have corrected this misstatement.

Our audit work identified inconsistent application of the accounting policy when valuing new assets, which has led to an overstatement of council dwellings of £6.4m. Management have corrected this misstatement.

Our review of the previous auditor's file identified that a number of assets were valued in October 2017 for the 2017/18 financial year, 6 months before the year end and no consideration had been given to potential movement in values between then and the year end. Consequently it was necessary for us to complete additional work on the opening balance to satisfy ourselves that it was not materially misstated as a result of potential movement in market values between October 2017 and 31 March 2018. We concluded that the opening asset balances were understated by £1.1m, which is not material so a prior period adjustment is not required.

PENSION LIABILITY ASSUMPTIONS

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Pension liability assumption

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the London Borough of Barking & Dagenham Pension Fund, and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the membership data and cash flows provided to the actuary as at 31 March may not be accurate, or that the valuation uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the consulting actuary report on the competency and experience of the actuary and the reasonableness of the assumptions used in the calculation;
- Obtained assurance over the controls for providing complete and accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.

Results

Our audit work identified one misstatement in relation to pensions. An overstatement of investment returns of £18.5m in relation to an estimation made by the actuary, whereby the percentage used for the assets return basis was higher than the actual outturn. Management have corrected for this error.

Two non-material misstatements arose during the course of the audit, after the draft financial statements had been prepared, as a result of:

- a supreme court judgment being issued (Lord Chancellor v McCloud) which the Council concluded created an obligation on LGPS schemes that existed at the balance sheet date and, therefore, required recognition by the applicable accounting framework. The Council sought actuarial advice on the judgment's impact on its liability, which was determined to be £3.8m. We are satisfied with the assumptions used by the actuary in making this estimate; and

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| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
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Pension liability assumption

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Results

- receipt of updated technical guidance on accounting for the impact of the Guaranteed Minimum Pension (GMP) on the Council's liabilities of £3.8m. Management have corrected this misstatement.

We did not find any other issues in relation to our work on the pension liability assumptions.

GROUP ACCOUNTS

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Risk description

The Council is expected to produce consolidated Group Accounts for the first time in 2018/19. The Council holds interests in a number of subsidiary organisations and is involved in joint venture arrangements.

The Council needs to ensure that it considers the requirements of IFRS 10 and IFRS 12, giving appropriate consideration to whether each of the subsidiaries are required to be consolidated. There is a significant risk that the consolidated financial statements will not be accurately prepared.

Work performed

We carried out the following planned audit procedures:

- Held early discussions with the Council to ensure that we agreed with the approach taken for consolidating the group accounts;
- Reviewed the Council’s documented consideration of the requirements of IFRS 10 and IFRS 12; and
- Performed audit testing on the draft consolidated Group Accounts to ensure that they were compliant with the Code.

Results

Our work on the group accounts is currently ongoing.

We have identified significant issues with the Council’s group consolidation, which has led to a high number of adjustments, some material in value. Issues identified are summarised on the following page of this report.

We continue to work with the Council to address consolidation issues and obtain required assurance over the group accounts.

All of the audits of the Council’s subsidiaries are complete and our review of those audit results identified a significant number of further amendments to the consolidated financial statements being necessary.

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Results continued

We have provided a summary of issues identified with the Group accounts and the audit process thereof. It should be noted that we are continuing to work with the Council to conclude the preparation and audit of the Group accounts and further issues, in addition to those reported below, are possible.

Individually material errors have been identified in respect of the following:

- Use of a non-current asset valuation prepared using an incorrect measurement basis for the asset type under the Group’s reporting framework (£9m). Upon correcting, the consolidation adjustment was incorrectly accounted for through the revaluation reserve rather than as an impairment through provision of service (£6.29m).
- Expenditure on property developed for sale was misclassified as property, plant and equipment (PPE), but should have been reported as inventory in the comparatives (£21.1m) and cost of sales (£31.8m) and revenue (£31.3m) on disposal in 2019/20.
- No adjustment was made for unrealised profit on consolidation, where the Council had capitalised expenditure that was revenue in subsidiary accounts (£9.5m). Several iterations were required to correctly account for this adjustment throughout the statements and the value may yet change further upon resolution of outstanding queries.
- Investment property was incorrectly classified as PPE (£18.8m).
- Cash flows were misclassified between activity types in the cash flow statement. Erroneous values were mostly linked to errors in the CIES and Balance Sheet, but entries also demonstrated a wider misunderstanding of the cash flow statement. For example,
 - Full transaction value of subsidiary sales capitalised by the Council were adjusted in a separate line of operating activities (£20.5m), but should have been adjustment of the profit element from deficit on provision of service in operating activities and purchase of PPE in investing activities (£9.5m, but may yet change).
 - A loss on revaluation was adjusted out of financing activities like a cash outflow, rather than as a non-cash movement in operating activities.
 - Sale of inventory in 18/19 (£31m) and purchase of inventory (£7.7m 18/19 and £13.7m 19/20) were reported as cash flows in investing activities without recognition that these were recognised in the loss for the year in operating activities, which should have been adjusted by the movement in inventory balance in a separate line within operating activities.
- An error arose on the cash flow statement when eliminating a loan from the Council to a subsidiary, which meant investment payments and loan receipts were adjusted by £16.7m, but should have been £26.9m.

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Results continued

A high volume of other individually non-trivial errors have been identified relating to:

- Conversion of component accounts prepared under IFRS/UK GAAP into Group statements prepared under the Code of Practice on Local Authority Accounting.
- Elimination of intra-group transactions and other consolidation adjustments.

Other significant issues with the Group accounts included:

- No Group notes were prepared where materially different to the Council's single entity notes.
- No Group comparatives were prepared for the core statements or notes (prior year Council single entity values were used).
- No Group accounting policies were disclosed where different to the Council's single entity policies.

Disclosure errors were identified relating to the use of incorrect/misleading terminology and inconsistencies throughout the statement of accounts.

Issues with information provided for audit include:

- A Group boundary assessment with reference to the applicable reporting framework was not provided initially and when provided it was inaccurate and inadequate.
- Information provided for use during the audit process relating to each of the components, which fed into our Group audit planning and Group boundary review, was inaccurate.
- Working papers prepared for audit were not well designed. This contributed to the volume of errors that arose. This led to the submission of multiple versions of working papers for audit, which in turn required significantly more resource to audit than planned. Working papers were re-worked in February 2020 and improved, but issues remain and further improvements are required for 2020/21.

CREDITORS

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Creditors
Responses in relation to our preliminary analytical review identified a material unexplained variance in the expected values which resulted in an increased audit risk for creditors.

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| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant Control Findings | |
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Risk description

The Council has undertaken a number of processes in relation to creditors, including matching the purchase order to the invoice once items have been processed.

Furthermore, the Council will need to account for supplies / services at different times resulting in accruals or receipts in advance to be estimated and judgements made when updating the ledger for the amounts to be recorded. This ensures material accuracy and it is important this is done on a consistent basis.

Creditors generally will affect a number of areas within the financial statements such as grants expenditure and employment tax calculations. In addition, management are required to make key estimations and judgements based on the information they have available. It is important that these estimations and judgements have a clear audit trail and are based on the best information available at that point.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of creditors to confirm they had supporting documentation due to the increased risk identified as part of our initial work;
- Tested an increased sample of accruals and receipts in advance to confirm judgements and estimations made had supporting calculations, which were consistent with Council policies due to the increased risk identified as part of our initial work; and
- Tested a sample of Purchase Orders (PO) specific transactions to confirm the invoice matched the PO value and where there were variances, the amount was adjusted for.

Results

Our testing has:

- Identified a number of significant issues, including; poor quality of supporting evidence and working papers, incorrect calculations of accruals and incorrect classifications of creditors;
- Identified 19 errors in relation to accruals and receipts in advance, the total of these errors was calculated to be £11.1m overstatement of which management have corrected £5.9m the remaining £5.2m is an projected misstatement; and
- During the course of investigating queries raised as a result of the audit management identified another £11.4m of errors owing to over-receipting of purchase orders occurring across the previous six years. This has resulted in a misstatement of £10.5m in relation to periods before 2018/19 and £877k in 2018/19. Management have corrected for these misstatements

Due to the number of errors identified in this area we have raised a recommendation, see page 30.

DEBTORS

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Debtors
Responses in relation to our preliminary analytical review identified a material unexplained variance in the expected values which resulted in an increased audit risk for debtors.

| | |
|----------------------------------|--|
| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant Control Findings | |
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Risk description

The Council has a significant number of debtors as part of its day to day processes. In addition, where different systems process debtors there should be a reconciliation process to ensure the ledger agrees to all other systems.

Furthermore, the Council will need to account for payments in advance to be estimated and judgements made when updating the ledger for the amounts to be recorded.

Without a clear methodology and a standardised set of processes and controls in place there is a risk that the figures used to calculate the debtor including any estimations or judgements may be inconsistent resulting in a material misstatement of debtors.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of debtors to confirm they had supporting documentation due to the increased risk identified as part of our initial work; and
- Tested an increased sample of prepayments to confirm judgements and estimations made had supporting calculations, which were consistent with Council policies due to the increased risk identified as part of our initial work.

Results

Our testing has:

- Identified a number of significant issues, including; the poor quality of working papers and supporting evidence, inconsistent provisions made for bad debt and debtors incorrectly classified (such as payment in advance instead of receipt in advance); and
- Identified 22 errors in relation to accruals and payments in advance which were either raised for the incorrect value or there was insufficient evidence to support the validity of the debt. The total value of the errors was a £12.7m overstatement of debtors. Management have corrected for £9.8m of this misstatement the remaining £2.9m is an projected misstatement.

Due to the number of errors identified in this area we have raised a recommendation, see page 31.

MISCLASSIFICATION OF TRANSACTIONS BETWEEN ENTITIES

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Misclassification between the Council and its group entities

| |
|----------------------------------|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
| Adjusted error |
| Additional disclosure required |
| Significant Control Findings |
| Letter of Representation point |

Risk description

In April 2019 the auditor of component Be First (KPMG) issued a disclaimer opinion for the 2017/18 accounts. This was on the basis that the auditor had identified transactions miscoded between component entities that share the Council’s ledger. This issue transcends all components that share the Council’s ledger.

There is a risk that Council transactions have been miscoded to component entity accounts, posing a material risk to the Council’s single entity accounts in particular.

Work performed

We carried out the following planned audit procedures:

- Liaised with the outgoing auditors and reviewed their audit file to understand the issue they identified;
- Reviewed the Council’s paper demonstrating that it was able to identify all miscoded transactions in 2017/18 and that it had mitigated the risk of this error repeating in 2018/19;
- Tested a sample of non adjusting entries for completeness to ensure entries that were not included should not have been;
- Sample tested the adjustments proposed by the Council to correct the miscodings; and
- Reviewed and tested the operating effectiveness of controls in place to prevent this issue from occurring and considered the implications on our audit strategy if these controls were not effectively designed or operating.

Results

Our testing has:

- Confirmed the findings of the previous auditors including any issues they had identified;
- Not identified any significant issues in relation to the Council’s work on identifying any miscoding of transactions which would result in a non trivial error in 2018/19;
- Not identified any significant miscodings between entities for 2018/19; and
- Confirmed the controls in place are adequate and appropriate to reduce the possibility of the miscoding occurring in the future.

RELATED PARTY TRANSACTIONS

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Related Party Transactions

Risk description

We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.

Work performed

We carried out the following planned audit procedures;

- Updated our understanding of the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions; and
- Discussed with management and reviewed senior management declarations to ensure there are no potential related party transactions which have not been disclosed; this is something we require you to include in your management representation letter to us.

Results

Our work identified that the draft financial statements provided for audit did not include debtor and creditor balances for related parties. This was corrected in the second version of the accounts received.

In addition, we are finalising our work on declarations of interest from Members and will conclude on this matter in our final report.

| |
|----------------------------------|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
| Adjusted error |
| Additional disclosure required |
| Significant Control Findings |
| Letter of Representation point |

NEW ACCOUNTING STANDARDS

New Accounting Standards

Risk description

Two new accounting standards will apply for the 2018/19 financial statements, these are IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. There is a risk that these are not adopted appropriately if their impact is material.

Work performed

We carried out the following planned audit procedures:

- Reviewed the Council's consideration and approach when applying IFRS 9 and IFRS 15 to the financial statements; and
- Compared the accounting policies adopted by the Council to the requirements of these new accounting standards.

Results

We have reviewed managements' considerations to applying IFRS 9 and 15, which management confirmed had no material impact on the financial statements. Our review confirmed that this conclusion was appropriate.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

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ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

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Allowance for non-collection of receivables

Risk description

The Council's bad debt provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rents arrears and car parking. The bad debt provision is material overall.

Work performed

We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflected historical collection rates by age of debt or arrears.

Results

Our review noted there was an inconsistent approach in relation to the method to which calculations were completed to formulate the bad debt provision, this resulted in a £1.5m overstatement of the provision for housing debt. We have raised a recommendation on page 32 of this report.

Our review over allowance for non-collection of other income streams did not identify any issues.

| |
|----------------------------------|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
| Adjusted error |
| Additional disclosure required |
| Significant Control Findings |
| Letter of Representation point |

COMPONENTISATION OF COUNCIL DWELLINGS

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Componentisation of Council dwellings

Risk description

For dwelling properties, we consider the split in value between land and building used in 2017/18 to be unusual and in addition we note the dwelling properties were not componentised. There is a risk that the annual depreciation charge is materially misstated.

Work performed

We carried out the following planned audit procedures:

- Considered the reasonableness of the split in value between land and building using comparatives from other local authorities; and
- Considered if a lack componentisation of buildings results in a material misstatement to the depreciation charge.

Results

No issues identified.

| |
|----------------------------------|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
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PROPERTY, PLANT AND EQUIPMENT - OTHER AREAS

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PPE - other areas

| |
|----------------------------------|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
| Adjusted error |
| Additional disclosure required |
| Significant Control Findings |
| Letter of Representation point |

Risk description

Our final accounts testing identified a number of other areas which had significant errors, this resulted in additional testing. These were:

- Additions;
- Disposals;
- Asset under construction (AUC); and
- Community assets.

Work performed

We carried out the following planned audit procedures:

- Increased sample testing of additions to ensure the capitalised additions agree to appropriate supporting evidence and are deemed to add value to the asset.
- Increased sample testing over historical AUC costs not reclassified to operational assets

Results

Our work in relation to additions of Property, Plant and Equipment identified five errors where capitalised expenditure either did not agree to underlying evidence or to the amount recognised in the draft financial statements. The cumulative impact of the errors is an overstatement of capital expenditure by £1.8m. This will remain an uncorrected misstatement as it is extrapolated.

Our work on assets under construction identified two prior period errors. The first was an overstatement of £31.8m relating to historic capital spend which had not been reclassified when assets became operational. This resulted in the need for a prior period adjustment to be made. The second misstatement of £527k related to an extension to a school which had not been recognised as other land and buildings once complete. This does not require a prior period adjustment as it is not material.

Our testing identified a material understatement by £47.7m of the value of community assets that were not re-valued at the year end. Management have corrected this misstatement.

Our testing of disposals identified an incorrect classification of disposals for vehicles, plant and equipment that should have been classified as intangible assets as at 31 March 2018. This resulted in an overstatement of the vehicles, plant and equipment opening balance figure by £1.5m and a understatement of the opening balance for intangible assets of £1.5m. Management do not intend to correct these misstatement.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 29 December 2018.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

Group matters

Our work on group accounting is still in progress.

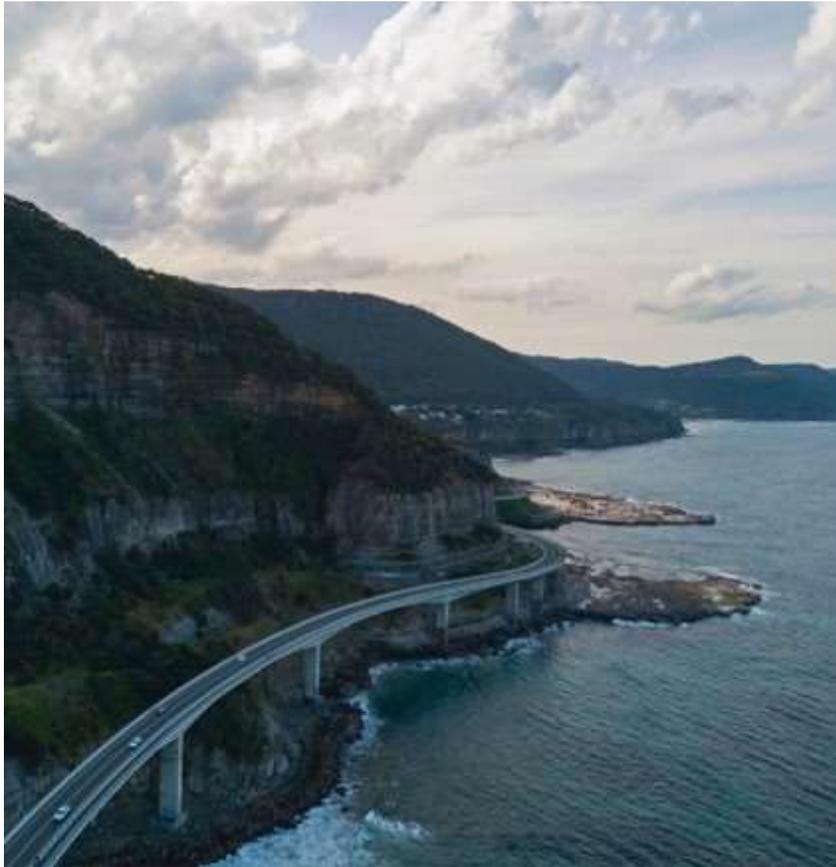


AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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We are required to bring to your attention unadjusted differences and we request that you correct them.

At the time of writing this report we await an adjusted version of the consolidated group financial statements. The audit differences identified to date are set out in the tables contained in the appendices to this report.

At this stage the classification of adjusted and unadjusted differences is based on our understanding, through discussions with management, of the adjustments it does and does not intend to make and those seen in the latest version of accounts provided.

On this basis there are 67 individual differences (43 errors are outlined in appendices due to grouping similar individual errors together) that management intends to correct.

The remaining 19 audit differences are those which management currently intends to leave unadjusted in the final version of the financial statements. These can be analysed as:

- Factual (net): CIES 0.4m / BS £0.4m
- Judgmental (net): CIES (£2.4)m / BS (£2.4)m
- Projected(net): CIES (£7.2)m / BS (£7.2)m

Factual misstatements are those about which there is no doubt.

Judgmental misstatements are differences arising from the judgments of management including those concerning recognition, measurement, presentation and disclosure in the financial statements that the auditor considers unreasonable or inappropriate.

Projected misstatements are the auditor’s best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

We will update the Audit and Standards Committee on any movement in these figures at the meeting to which this report is presented. We will also issue a revised Audit Completion Report to reflect the final position at the date of the opinion.

REPORTING ON OTHER INFORMATION

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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

| Matter | Comment |
|---|---|
| We are required to report on whether the financial and non-financial information in the Annual Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit. | We are satisfied that the other information in the Annual Report is consistent with the financial statements and our knowledge. |
| We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council. | We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge. |

SPECIAL REPORTING POWERS AND DUTIES

ISA 265 requirement

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| Matter | Comment |
|---|---|
| Significant deficiency in the internal control for the preparation of the financial statements. | <p>Auditing standards require that we communicate to those charged with governance any significant deficiencies in internal control identified during the audit, in writing, as soon as is practicably possible.</p> <p>Our audit of the draft statement of accounts identified a significant number of figures included in the statements which were misstated, some materially so. We raised these matters with the Council throughout the audit, which resulted in revised working papers being provided for a significant number of areas of the accounts. As a result, it has been necessary to perform additional audit work to confirm the accuracy of revisions proposed by the Council.</p> <p>The errors identified varied in their nature and impact on the statement of accounts. They also included a number of misstatements in relation to the prior year (2017/18) comparatives some of which resulted in a prior period adjustment.</p> <p>At the time of issuing this report there is a £90.2m net impact on the cost of services reported by the Council. This and the individual material disclosure misstatements in the core financial statements certified by the section 151 officer, published by the Council and presented for audit, is contrary to the Local Authority Accounting Code of Practice requirement for the Council to produce materially accurate draft financial statements. We have worked with the Council on finalising the impact of the audit findings, and the Council producing a final set of financial statements that are materially accurate and Code compliant.</p> <p>The Council has provided evidence to demonstrate that a review of completeness and reconciliation of the draft financial statements to their management accounting regime, was undertaken by senior members of the closedown team prior to publication, which placed reliance on previously audited figures. The evidence provided demonstrates that an appropriate internal control, designed to identify potential material misstatements before publication of the draft statement of accounts, exists. However, the subsequent identification of the misstatements, material and otherwise, referred to in this Audit Completion Report indicates that this internal control did not operate effectively. Therefore, we consider this a significant deficiency in internal control.</p> |

WHOLE OF GOVERNMENT ACCOUNTS

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| Matter | Comment |
|---|---|
| For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies. | <p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019.</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council’s financial statements.</p> <p>We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements by August 2020 which is after the National Audit Office’s 13 September 2019 deadline.</p> |

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We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

| Audit Risk | Criterion | Risk Rating | Issues identified that impact on conclusion |
|---------------------------------|--|-------------|--|
| Sustainable resource deployment | <p>The update to the Medium Term Financial Strategy to 2020/21 has forecast further reductions in Government core grant funding and a budget gap of £11.5m (after a planned one-off use of reserves). The current forecast position for 2018/19 is an overspend of £3.818m, however this is heavily reliant on the successful delivery of the People and Resilience Action Plan.</p> <p>Identifying the required level of savings from 2018/19 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.</p> | Significant | <p>The financial outturn position for 2018/19 was £2.9m overspend against the planned spend and before our audit, equivalent to 2% of the budget. The most significant overspends were in respect of adults, children’s and disabilities, where the overspend was £9.9m, thus demonstrating that significant underspends were achieved in other areas. The most favourable variance against budget was in respect of council tax and business rates income, where income was £3.4m higher than budgeted.</p> <p>The MTFs shows the budget gaps for future years to be as follows:</p> <ul style="list-style-type: none"> • 2020/21: £4.8m • 2021/22: £(3.7m) • 2022/23: £2.3m • 2023/24: £2.2m <p>In order to bridge these gaps, £3.2m will need to be appropriated from earmarked reserves in 2020/21. The Council does not anticipate any future use of reserves other than that, with a budget surplus predicted for 2021/22, and therefore no gap to fill, and all other gaps are expected to be covered by savings targets.</p> <p>The Council have considered the impact of Covid-19 for the 2018/19 accounts and do not believe the impact will be significant. They do note the impact will affect the 2019/20 and 2020/21 financial accounts.</p> <p>This is in line with our work and considerations of the Council's judgement.</p> |

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council’s financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Significant Deficiencies

| Area | Observation & implication | Recommendation | Management response |
|-------------------------------------|--|---|---|
| Preparation of financial statements | Our initial review of the draft financial statements identified a significant number of issues, both in relation to compliance with the code, casting and reconciliations to working papers. | Introduce a two layer quality control, whereby: <ul style="list-style-type: none"> • The accounts are reviewed for compliance with the code of practice; • The accounts are reviewed for casting; and • All working papers are reconciled to the draft financial statements. | This will be in place for the Draft SoA 2019-20. These controls now form part of our robust QA process going forward. Responsible officer: Chief Accountant |
| Quality of working papers | Our review and testing of working papers has identified a significant number of errors including figures not the draft statements or the supporting evidence requested. | Quality review all working papers before proving for audit. | As above, all working papers will be subject to a QA process. Additionally there will be changes to the working papers, making it easier for BDO to select samples from and audit them. This will be in place for 2019-20 Audit. Responsible officer: Chief Accountant |

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SIGNIFICANT AND OTHER DEFICIENCIES

Significant Deficiencies (continued)

| Area | Observation & implication | Recommendation | Management response |
|-------------------|--|---|---|
| Creditor balances | <p>Review of creditor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> incorrect accrual calculations; incorrect classification where unspent grant income has been incorrectly included; and Insufficient supporting evidence for creditors. | <p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the creditor balance is completed to ensure that all creditors have been correctly treated; A regular review / reconciliation process is put in place to ensure that accruals are reviewed to confirm they have been correctly accounted for; and All creditors are reviewed to confirm there is sufficient supporting evidence if required. | <p>A rigorous and robust programme has been drawn up and is in place as part of 2019-20 accounts closedown.</p> <p>In addition, we have identified a list of historic balances which need writing off/on. There will be a QA of all Balance Sheet reconciliations.</p> <p>Responsible officer: Chief Accountant</p> |
| Debtor balances | <p>Review of debtor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> Different figures between the ledger and other Council systems; incorrect provision made for bad debt classification where unspent grant income has been incorrectly included; Insufficient supporting evidence for debtors; and Debtors incorrectly classified (such as payment in advance instead of receipt in advance). | <p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the debtor balance is completed to ensure that all debtors have been correctly treated; A review process is put in place to ensure that receipts in advance are reviewed to confirm they have been correctly accounted for; Regular balance sheet reconciliations are carried out; Emphasis on reviewing PO (for debtors & creditors) variations including correcting variances before year end; and All debtors are reviewed to confirm there is sufficient supporting evidence if required. | <p>A rigorous and robust programme has been drawn up and is in place as part of 2019-20 accounts closedown.</p> <p>In addition, we have identified a list of historic balances which need writing off/on. There will be a QA of all Balance Sheet reconciliations.</p> <p>Responsible officer: Chief Accountant</p> |

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SIGNIFICANT AND OTHER DEFICIENCIES

Significant Deficiencies (continued)

| Area | Observation & implication | Recommendation | Management response |
|--------------|---|---|---|
| User access | Management have confirmed there is currently no periodic review of access rights of users. From the review of the IT systems we noted one user who has been granted 'Super user access' in relation to LBBD Intercompany processes. This allows the user to post transactions to other entity ledgers, even though the user has no direct involvement with the other entities. | <p>Implement checks ensuring:</p> <ul style="list-style-type: none"> A periodic review of users is completed to ensure that the access of all users is considered, ensuring the separation of staff who have access to the financial systems and those that have access to other systems; A review is completed for all 'Super users' to confirm that the access is appropriate. | <p>A user review is conducted on a monthly basis of the specialist / high risk responsibilities; such as General Ledger User, Superusers, Capital Projects, Payables, and Receivables. This is to ensure that only current authorised users have access to appropriate responsibilities. Any out of date access is removed by Oracle Support.</p> <p>Responsible officer: Chief Accountant</p> |
| Grant income | <p>Review of grant balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> Double accounting of the Dedicated schools grant; Incorrect classification between ring fenced and non-ring fenced grants; Incorrect recognition of grants in the correct financial period; and Incorrect classification of grants (i.e. grants which have been held for a significant period of time should be included as long term liabilities). | <p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the grant balances (both revenue and capital) to ensure that all grant income has been correctly treated; A review process is put in place to ensure that all new grants are recorded with sufficient detail that when monies are spent these can be checked against conditions to ensure the Council are able to do so and all working papers include the grant notification letter, award letter and confirmation amounts with any potential conditions; and Review of all grants which have not been spent at year end to confirm any income carried forward has been correctly accounted for. | <p>This is an area we have revamped - going forward various services will be using a new template for the monthly grant income reconciliation. This is then brought together via central coordination to a position where all grant transactions are converted into single grant items - making it easier for BDO to audit along with clear working papers to be made available. The above is in place for 2019-20 Accounts Audit.</p> <p>Responsible officer: Chief Accountant</p> |

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SIGNIFICANT AND OTHER DEFICIENCIES

Other Deficiencies

| Area | Observation & implication | Recommendation | Management response |
|---|---|---|--|
| Allowance for non-collection of receivables | Review of bad debt provision identified variances of the percentages used to calculate the provision and the policy has not been reviewed for a significant period of time. | Review the bad debt provision each year taking into account historical collections rates along with anticipated current or future impacting events. | This is now in place where a single working paper is produced for all known receivables along with the provision calculated. This will ensure a consistent approach is taken. Responsible officer: Chief Accountant |

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INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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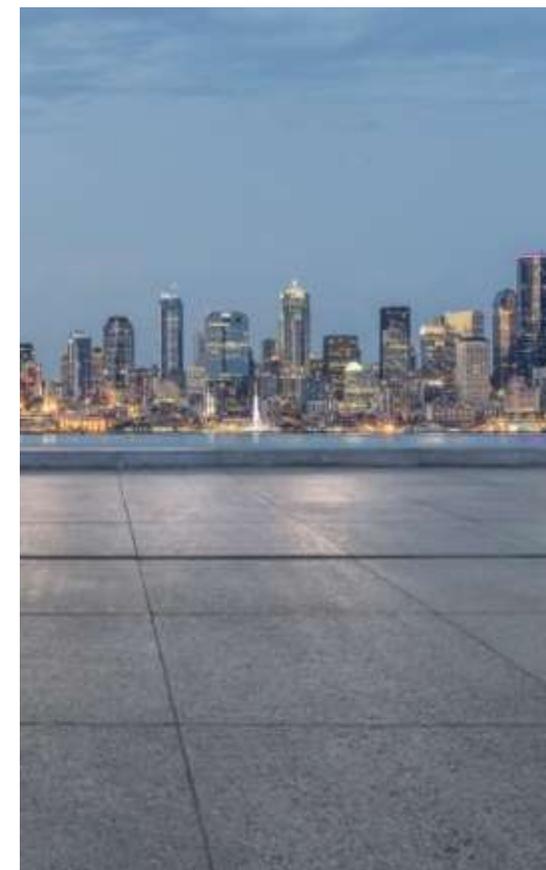
FEES

| Fees summary | 2018/19 | 2018/19 | 2017/18 |
|--|---------------|----------------|----------------|
| | Actual | Planned | Actual |
| | £ | £ | £ |
| Audit fee | | | |
| • Code audit fee: Consolidated Group and Council financial statements and use of resources | TBC | 127,801 | 165,975 |
| • Group consolidation audit fee ¹ | TBC | N/A | N/A |
| Non-audit assurance services | | | |
| Fees for reporting on government grants: | | | |
| • Housing benefits subsidy claim | 19,800 | 19,800 | 34,354 |
| • Pooling of housing capital receipts return | 3,250 | 3,250 | 5,750 |
| • Teachers' pensions return | 3,250 | 3,250 | 2,900 |
| Fees for other non-audit services | 26,300 | 26,300 | 43,004 |
| Total fees | TBC | 154,101 | 208,979 |

¹ Group accounts were prepared for the first time this year so there is no 2017/18 comparative fee. In agreement with management, no fee estimate was provided due to the uncertainty regarding the level of audit work that would be required for such a complex group consolidation. We will agree this fee at the conclusion of the audit.

Additional fees

Due to the additional work required in relation to the group accounts and the substantial amount of additional testing and Manager and Partner time required to address the audit risk profile of the Council and the volume of errors and other issues identified as part of the single entity audit there will be an additional fee required. This will be discussed in the first instance with management and then with the Audit and Standards Committee after the completion of the audit.



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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------------------------|--------------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 |
| Unadjusted audit differences | | | | | |
| Surplus on the provision of services before unadjusted audit differences | | (5,677) | | | 1,719,728 |
| 1: Assets valued in the prior year were valued as at 1/10/2017, with no consideration of movement up to year end. Giving a expected understatement in their value (we note this is for properties valued using EUV) | P | | | | |
| DR Plant Property Equipment | | | | | 1,092 ¹ |
| CR Revaluation Reserve | | | | | 1,092 ¹ |
| 2: Misclassification of Non ring-fenced Grant Income to ring-fenced Grant income. | | | | | |
| DR CIES - Income above Provision of Service | F | | 457 | | |
| CR CIES - Taxation and Non-specific Grant Income | | | | 457 | |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

Key

F - Factual
J - Judgemental
P - Projected

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | | |
| 3: Misclassification of asset 'Chromebooks' disposed within VPE should be included within intangible | | | | | | |
| Net Book Value at disposal was £605k which should be reversed out of VPE to Intangibles ¹ | F | | | | | |
| DR PPE - Vehicle Plant and Equipment | | | | | | 605 |
| CR Intangibles | | | | | 605 | |
| 4: AUC to be overstated by £527k due to the spend capitalised on the asset not being reclassified to operational assets category when the asset became operational ¹ | F | | | | | |
| DR PPE - Other Land and Building | | | | | 527 | |
| CR Asset Under Construction | | | | | | 527 |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | | |
| 5: Depreciation has been incorrectly calculated on a sample of assets (overstatement of depreciation) (extrapolated error) | P | | | | | |
| DR PPE - Accumulated Depreciation | | | | | 886 | |
| CR CIES - Depreciation Expense | | | | 886 | | |
| 6: PPE Additions five errors noted where samples didn't agree to underlying breakdown of expenditure/invoices overstating additions (error has been extrapolated) | P | | | | | |
| DR PPE Additions | | | | | 1,815 | |
| CR Expenditure | | | | 1,815 | | |
| 7: £32k underspend on revenue budget was incorrectly recognised as income (error has been extrapolated) | P | | | | | |
| DR CIES - Income | | | 200 | | | |
| CR Debtor | | | | | | 200 |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | | |
| 8: Reconciling items on the Capita (Housing System) to Oracle (Finance System) reconciliation of HRA income overstating income | F | | 432 | | | |
| DR CIES - HRA Income | | | | | | 432 |
| CR Rent Control Account | | | | | | |
| 9: Three cut off errors identified over our work on HRA supervision and management expenditure overstating expenditure. (error has been extrapolated) ¹ | P | | | 261 | | |
| CR CIES - HRA Supervision and Management expenditure | | | | | | 261 |
| DR Creditor Accruals | | | | | | |
| 10: One cut off error identified from our testing of HRA repairs and maintenance expenditure, overstating expenditure (error has been extrapolated) ¹ | P | | | 1,375 | | |
| CR CIES - HRA Repairs and Maintenance expenditure | | | | | | 1,375 |
| DR Creditor Accruals | | | | | | |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | | |
| 11: Extrapolated Creditor Errors | | | | | | |
| Seventeen errors have been corrected by management this was composed of two errors above £1 million, remaining errors below triviality. Nature of errors include creditors raised incorrectly or require writing off. | P | | | | | |
| DR Creditor | | | | | 1,197 | |
| DR Creditor - Accruals | | | | | 3,264 | |
| DR Creditor - Receipts in Advance | | | | | 691 | |
| CR CIES Expenditure | | | 5,153 | | | |
| 12: Extrapolated Debtor Errors. Twenty two errors have been corrected by management this was composed of One errors above £1 million, remaining errors below triviality. Nature of errors include debtors raised incorrectly or require writing off. | P | | | | | |
| CR Debtors | | | | | | 889 |
| CR Debtors Accruals | | | | | | 2,152 |
| DR Debtors Payment In Advance | | | | | 97 | |
| CR CIES Income | | | 2,944 | | | |

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | | |
| 13: Double counting of loan receipts from sub and Weavers ¹ | F | | | | | |
| CR Investment | | | | | | 238 |
| DR Investment Income | | | 238 | | | |
| 14: One cut off error was identified from our work over social care expenditure, overstating expenditure (error has been extrapolated) | P | | | | | |
| CR CIES Expenditure | | | | 778 | | |
| DR Creditor | | | | | | 778 |
| 15: Revaluation Valuation differences due to valuation input discrepancies (error has been extrapolated) ¹ | P | | | | | |
| DR Community Assets | | | | | | 686 |
| CR Revaluation Reserve/ CAA | | | | | | 686 |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------------------------|-------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 |
| Unadjusted audit differences | | | | | |
| CR MiRS | | | | | 686 |
| CR Re measurement/Impairment of Revaluation of PPE | | | | 686 | |
| CR Surplus Assets | | | | | 109 |
| CR Re measurement/Impairment of Revaluation of PPE | | | | 109 | |
| CR Revaluation Reserve/ CAA | | | | | 109 |
| CR MiRs | | | | | 109 |
| CR Other Land & Building | | | | | 882 |
| DR Re measurement/Impairment of Revaluation of PPE | | | 882 | | |
| CR Revaluation Reserve/ CAA | | | | | 882 |
| DR MiRS | | | | | 882 |
| 16: Two cut off errors identified from our work over expenditure | F | | | | |
| CR CIES Expenditure | | | | 73 | |
| DR Creditor | | | | | 73 |

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Details for the current year

| | Error Type | Income and expenditure | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------------------------|-------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 |
| Unadjusted audit differences | | | | | |
| 17: School Cash balance adjustment - difference between the forecasted cash position and actual cash position | F | | | | |
| DR Cash | | | | | 2,630 |
| CR Reserve | | | | | 2,630 |
| 18: Grant ELHP - Carry Forward Of Balances to 2018/19 of £390,556 | | | | | |
| The council are unable to substantiate the accuracy of the carry forward, therefore this was proposed to be write off | F | | | | |
| DR Creditor | | | | | 390 |
| CR Income | | | | 390 | |

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Details for the current year

| | Error Type | Income and expenditure | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------------------------|-------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 |
| Unadjusted audit differences | | | | | |
| 19: Assets Under Construction - opening balance overstated due to assets not being moved to Council dwellings once completed. (change in relation to impact of revaluation if had been moved in correct year) ¹ | P | | | | |
| Dr: Council Dwellings | | | | 2,371 | |
| Cr: Revaluation reserve | | | | | 2,371 |
| Dr: MiRS | | | | 2,371 | |
| Dr: Depreciation | | | 879 | | |
| Cr: Re measurement/Impairment of PPE | | | | 3,250 | |
| Net unadjusted errors | | (9,203) | | | |
| Surplus on the provision of services after unadjusted audit differences | | (14,880) | | | |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

The following unadjusted disclosure matters were noted:

- Expenditure Funding Analysis Note Pension Adjustment for 2017/18

Our review of the accounts noted no figure disclosed for 2017/18 EFA Note, management are of the view the amount for 2017/18 was not material and therefore will not be adjusting.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| Surplus on the provision of services before adjustments | | (5,677) | | | 1,719,728 | |
| 1: Demolition of Investment Properties recognised and revalued within the Investment Property Fixed Asset Register in 2018/19 ¹ | F | | | | | |
| DR CIES Finance and Investment - Loss on Disposal | | | 1,200 | | | |
| CR Investment Property | | | | | | 1,200 |
| DR Capital Adjustment Account - Disposal | | | | | 1,200 | |
| CR MiRs - General Fund | | | | | | 1,200 |
| 2: Reclassification of Housing Rent overpayments/payments in advance to Housing Rent Creditors | F | | | | | |
| DR Housing Rent Debtor | | | | | 3,812 | |
| CR Housing Rent Creditor | | | | | | 3,812 |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

Key

F - Factual
J - Judgemental
P - Projected

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NETDR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 3: To reclassify a £5m loan with Wycombe DC maturing in December 2019 to Short Term Borrowings. | F | | | | | |
| DR Long Term Borrowings | | | | | 5,000 | |
| CR Short Term Borrowings | | | | | | 5,000 |
| 4: To reclassify customers with credit balances to creditors | F | | | | | |
| DR Debtors | | | | | 790 | |
| CR Creditors | | | | | | 790 |
| 5: DSG Income and Expenditure has been grossed up in 2018/19 and 2017/18 | F | | | | | |
| Prior period adjustment | | | | | | |
| DR Dedicated School Grant Income | | | 176,808 | | | |
| CR Dedicated School Grant Expenditure | | | | 176,808 | | |
| DR Dedicated School Grant Income 2017/18 | | | 168,108 | | | |
| CR Dedicated School Grant Expenditure 2017/18 | | | | 168,108 | | |
| CR Equity | | | | | | |

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | | Income and expenditure | | | Statement of Financial Position | |
|--|---|------------------------|-------|-------|---------------------------------|--------|
| | | NET DR/(CR) | DR | (CR) | DR | (CR) |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adjusted audit differences | | | | | | |
| 6: Correction of ST/LT borrowing split as originally split was based on less than 3 months being ST, rather than 12 months | F | | | | | |
| DR Long Term Borrowings | | | | | | 37,600 |
| CR Short Term Borrowings | | | | | 37,600 | |
| 7: Adecco rebates incorrectly recognised as income rather than a reduction in expenditure. | F | | | | | |
| DR CIES Income | | | 2,600 | | | |
| CR CIES Expenditure | | | | 2,600 | | |
| 8: Reclassification Short Term Capital Grants Receipts In Advance to their appropriate place on the Balance Sheet | | | | | | |
| DR ST Grants Receipt In Advance | F | | | | | 1,346 |
| CR ST Creditors | | | | | | 1,300 |
| CR Equity | | | | | | 46 |

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 9: Grants (DFC RIA) classified as long term liabilities due to the time they have been outstanding | F | | | | | |
| DR ST Grants Receipt In Advance | | | | | 406 | |
| CR Long Term Creditor | | | | | | 406 |
| 10: Revenue grants misclassified to capital grant | F | | | | | |
| DR Reserves - Capital Grants Unapplied | | | | | 182 | |
| CR CIES - Expenditure | | | 182 | | | |
| CR CIES - Taxation and Non-specific Grant Income | | | | 182 | | |
| CR MiRS | | | | | | 182 |
| 11: Unidentified Employer Tax Creditor written off | F | | | | | |
| DR Payroll Creditor | | | | | 290 | |
| CR CIES Expenditure Write Off | | | | 290 | | |
| DR MiRS | | | | | 290 | |
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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 12: Depreciation on Heritage Assets applied incorrectly. | F | | | | | |
| DR Heritage Assets | | | | | 97 | |
| CR Capital Adjustment Account | | | | | | 97 |
| CR CIES - Depreciation | | | | 97 | | |
| Dr MiRS - General Fund | | | | | 97 | |
| 13: Valuation of Asset Lock up Garages has been valued incorrectly by the valuers due to the incorrect input data applied (overstating the value) | F | | | | | |
| CR PPE - Other Land and Building | | | | | | 1,471 |
| DR Reserve - Revaluation Reserve | | | | | 1,471 | |
| CR Revaluation Gains through CIES | | | 1,471 | | | |
| CR MiRS - General Fund | | | | | | 1,471 |

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| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 14: Creditor - Parent Pay Unidentified Amount which is unidentified, and has been agreed that the total creditor should be written back to revenue | F | | | | | |
| DR Creditor | | | | | 1,805 | |
| CR Income | | | 1,805 | | | |
| DR MiRS | | | | | 1,805 | |
| CR Reserves | | | | | | 1,805 |
| 15: Creditor recognised overstated against workings (3 errors below materiality) | F | | | | | |
| Dr Creditor | | | | | 164 | |
| Cr CIES Expenditure | | | 164 | | | |
| Dr MiRs | | | | | 164 | |
| Cr Reserves | | | | | | 164 |

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| | Income and expenditure | | | Statement of Financial Position | |
|---|------------------------|-------------|---------------|---------------------------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | |
| 16: Creditor Accruals recognised incorrectly (5 errors below materiality) F | | | | | |
| Dr Creditor Accruals | | | | 1,530 | |
| Cr CIES Expenditure | | | 1,530 | | |
| CR Asset Under Construction | | | | | 1,476 |
| DR PPE | | | | 1,476 | |
| CR Capital Receipts Reserve | | | | | 1,476 |
| DR Equity | | | | 1,476 | |
| 17: Creditor Receipt in Advance incorrectly recognised as Receipt in Advance (9 errors) F | | | | | |
| Dr Creditor Receipts in Advance | | | | 1,895 | |
| Cr CIES Expenditure | | | 1,738 | | |
| Cr Debtor | | | | | 157 |
| Dr MiRs | | | | 1,738 | |
| Cr Reserves | | | | | 1,738 |

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| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 18: Creditor - Reclassified to Long Term Creditor | F | | | | | |
| DR Creditors | | | | | 279 | |
| CR ST Creditor | | | | | | 279 |
| 19: Debtor Error - Rent deposit scheme write off due to change in council policy | F | | | | | |
| CR Debtor | | | | | | 656 |
| DR CIES Expenditure | | | 656 | | | |
| DR Equity | | | | | | 656 |
| CR MiRS | | | | | | 656 |
| 20: Debtor Error - Housing Report discrepancy impacting bad debt provision | F | | | | | |
| DR CIES - Bad Debt Provision | | | 1,331 | | | |
| CR CIES - Expenditure | | | | 1,331 | | |
| DR MiRS | | | | | | 1,331 |
| CR Equity | | | | | | 1,331 |

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 21: Debtor Error - Debtor to be written off (3 errors below materiality) | F | | | | | |
| CR Debtor | | | | | | 422 |
| DR CIES Income | | | 349 | | | |
| DR Capital Grants Unapplied | | | | | 73 | |
| CR MiRS | | | | | | 422 |
| DR Equity | | | | | 422 | |
| 22: Debtor Error - Debtor raised with LA School which is not permitted | F | | | | | |
| CR Debtor | | | | | | 205 |
| DR CIES Income | | | 8 | | | |
| DR CIES Expenditure | | | 197 | | | |
| CR MiRS | | | | | | 205 |
| DR Equity | | | | | 205 | |

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|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 23: Debtor Accruals - Accruals written off due to insufficient evidence or lack of recoverability (5 errors) | F | | | | | |
| CR Debtor | | | | | | 316 |
| DR CIES Bad Debt Write Off | | | 316 | | | |
| CR MiRS | | | | | | 316 |
| DR Equity | | | | | 316 | |
| 24: Debtor Error - Grant Income incorrectly raised as Payment In Advance rather than Receipt in Advance (9 errors) | F | | | | | |
| DR Debtor | | | | | 1,034 | |
| CR Creditor - Receipt in Advance | | | | | | 753 |
| CR Income | | | | 281 | | |
| DR MiRS | | | | | 281 | |
| CR Equity | | | | | | 281 |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 25: Debtor - Receipt in Advance write off | F | | | | | |
| DR Income | | 101 | | | | |
| CR Debtor | | | | | | 101 |
| CR MiRS | | | | | | 101 |
| DR Equity | | | | | 101 | |
| 26: Debtor Error - Grant incorrectly treated as Payment in Advance | F | | | | | |
| CR Debtors | | | | | | 13 |
| DR Creditors - Payment in Advance | | | | | 13 | |
| DR CIES Income | | | | 3 | | |
| CR CIES Expenditure | | | 3 | | | |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 27: Miscoding of Revaluation of OLB upward and downward revaluation | F | | | | | |
| DR Revaluation Upwards | | | | | 57,392 | |
| CR Revaluation Downwards | | | | | 1,543 | |
| CR Capital Adjustment Account | | | | | | 58,935 |
| DR CIES - Deficit Surplus in Revaluation of PPE | | | | 58,935 | | |
| CR MiRS | | | | | 58,935 | |
| 28: Journal to account for the McCloud and GMP | J | | | | | |
| DR Past service costs | | | 6,622 | | | |
| DR Pension Interest Cost | | | 89 | | | |
| CR Net pensions liability | | | | | | 6,711 |
| DR Pensions reserve | | | | | 6,711 | |
| CR MiRS | | | | | | 6,711 |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 29: Valuation of Street Purchases for 2018/19 purchases recognised at cost rather than valuers valuation | F | | | | | |
| CR PPE - Council Dwellings | | | | | | 6,468 |
| DR Capital Adjustment Account | | | | | 6,468 | |
| CR MIRS | | | | | | 6,468 |
| CR CIES - Deficit Surplus in Revaluation of PPE | | | 6,468 | | | |
| 30: Valuation of Community Assets- Revaluing remaining community assets | F | | | | | |
| DR PPE - Community Assets | | | | | 47,738 | |
| DR MiRS | | | | | 47,738 | |
| CR Revaluation Reserve :Upwards | | | | | | 45,540 |
| CR Capital Adjustment Account - Upwards Revaluation | | | | | | 2,339 |
| DR Revaluation Reserve :Downwards | | | | | 100 | |
| DR Capital Adjustment Account - Downwards Revaluation | | | | | 41 | |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 31: LGPS Overstated Investment Return | J | | | | | |
| DR CIES - Investment Return | | | 18,541 | | | |
| CR Net pensions liability | | | | | | 18,541 |
| CR Pensions reserve | | | | | | 18,541 |
| DR MiRS | | | | | | 18,541 |
| 32: PO Correction due to over receipting (note this is part of a larger £10.5m balance) ¹ | F | | | | | |
| DR Reserve | | | | | | 4,993 |
| CR MIRS | | | | | | 4,993 |
| DR CIES Expenditure | | | 7,777 | | | |
| CR Creditor | | | | | | 7,777 |
| DR Reserve | | | | | | 2,784 |
| CR MIRS | | | | | | 2,784 |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | | Income and expenditure | | | Statement of Financial Position | |
|--|---|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 33: Interest on long term debtor should have been rolled up at the year end | F | | | | | |
| DR Long Term Debtor | | | | | 151 | |
| CR Interest Income | | | | 151 | | |
| 34: Capital Grant GLA Building Council Homes for Londoners - received after the year end and not accrued for | F | | | | | |
| DR Debtor | | | | | 2,924 | |
| CR Capital Grants Unapplied | | | | | | 2,924 |
| CR CIES - Taxation and Non-specific Grant Income | | | | 2,924 | | |
| DR MiRS | | | | | 2,924 | |
| 35: Asset valued adopted using incorrect measurement value | F | | | | | |
| CR Investment Property | | | | | | 790 |
| DR CIES Finance and Investment - Loss on Disposal | | | 790 | | | |
| DR Capital Adjustment Account - Disposal | | | | | 790 | |
| CR MiRs - General Fund | | | | | | 790 |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 36: Investment Property demolished in 2014 has been incorrectly revalued in 2018/19 ¹ | F | | | | | |
| CR Investment Property | | | | | | 248 |
| DR CIES Finance and Investment - Loss on Disposal | | | 248 | | | |
| DR Capital Adjustment Account - Disposal | | | | | 248 | |
| CR MiRs - General Fund | | | | | | 248 |
| 37: HRA Asset Under Construction Asset Overstated | F | | | | | |
| Prior period Adjustment | | | | | | |
| DR Council Dwellings | | | | | 31,802 | |
| CR Asset Under Construction | | | | | | 31,802 |

¹ This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|---|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 38: Grant Errors | F | | | | | |
| DR Income | | | | 93 | | |
| CR Creditors | | | | | | 1,016 |
| DR Debtors | | | | | 1,109 | |
| CR MiRS | | | | | 93 | |
| DR Equity | | | | | | 93 |
| 39: Housing Debtor unidentified difference between Housing and Ledger | F | | | | | |
| DR Income | | | 801 | | | |
| CR Debtor | | | | | | 801 |
| CR MiRS | | | | | | 801 |
| DR Equity | | | | | 801 | |
| 40 To adjust year-end finance lease liability posted incorrectly | F | | | | | |
| CR ST Creditor - Finance Lease | | | | | | 526 |
| DR LT Creditor- Finance Lease | | | | | 466 | |

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Details for the current year

| | Error Type | Income and expenditure | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------------------------|-------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 |
| Adjusted audit differences | | | | | |
| DR CIES - Property Lease Expense | | | 59 | | |
| DR MiRS | | | | 59 | |
| CR Equity | | | | | 59 |
| 41: Riverside Secondary School -IT Equipment Reclassification | F | | | | |
| DR Council Dwellings | | | | 509 | |
| CR Other Land and Building | | | | | 509 |
| 42: Unidentified transactions on payroll deduction report | F | | | | |
| DR Debtor | | | | 316 | |
| DR Creditor | | | | 48 | |
| CR CIES Income and Expenditure | | | 363 | | |
| DR MiRS | | | | 363 | |
| CR Equity | | | | | 363 |

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Details for the current year

| | Error Type | Income and expenditure | | | Statement of Financial Position | |
|--|------------|------------------------|-------------|---------------|---------------------------------|---------------|
| | | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | | |
| 43: Collection Fund Adjustments | F | | | | | |
| DR CT Income | | | 3,879 | | | |
| CR NDR Debtor | | | | | | 1,141 |
| DR CT Expenditure (Write offs) | | | 1,567 | | | |
| CR Collection Fund Adjustment Account | | | | | | 4,305 |
| Prior Period Adjustment Corrected in 2018/19 | | | | | | |
| Net of adjusted errors | | (64,969) | | | | |
| Surplus on the provision of services after adjustments | | (70,464) | | | | |

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PROJECTED AUDIT DIFFERENCES FOR ALL UNADJUSTED ERRORS

Below we have detailed the impact of the all the current unadjusted errors once extrapolated. The extrapolation represents our best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

| | Areas of Financial Statement | Value of Error £'000 | Extrapolated Error £'000 | Unadjusted Audit Difference Ref. |
|---|---|-------------------------|-----------------------------|----------------------------------|
| 1 | Depreciation - Overstated | 14 | 886 | 5 |
| 2 | PPE Additions - Overstated | 810 | 1,815 | 6 |
| 3 | CIES Income - Overstated | 32 | 200 | 7 |
| 4 | HRA Supervision and Management Expenditure - Overstated | 27 | 261 | 9 |
| 5 | HRA Repairs and Maintenance Expenditure - Overstated | 24 | 1,375 | 10 |
| 6 | Social Care Expenditure - Overstated | 13 | 778 | 14 |
| 7 | Community Asset Revaluation - Overstated | 610 | 686 | 15 |
| 8 | Surplus Asset Revaluation - Understated | 93 | 109 | 15 |
| 9 | Other Land and Building - Overstated | 383 | 882 | 15 |

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PROJECTED AUDIT DIFFERENCES - WHERE PARTIAL NUMBER OF ERRORS CORRECTED

Below we have detailed the impact of the all the current adjusted errors once extrapolated. The extrapolation represents our estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

Note: the error extrapolated amount is reduced by the any factual corrected amount.

| | Areas of Financial Statement | Value of Error £'000 | Extrapolated Error £'000 | Unadjusted Audit Difference Ref. | Factual Errors Corrected | Revised Extrapolation of potential error remaining. |
|----|--|-------------------------|-----------------------------|-------------------------------------|----------------------------|--|
| 10 | Creditors - Overstated | 1,970 | 3,167 | 11 | £1.9m Error #14,15, | £1.20m |
| 11 | Creditors Accruals - Overstated | 1,530 | 4,795 | 11 | £1.5m Error #16 | £3.26m |
| 12 | Creditor Receipt in Advance - Overstated | 1,895 | 2,587 | 11 | £1.90m Error #17 | £691k |
| 13 | Debtor - Overstated | 422 | 1,312 | 12 | £422k Error # 23 | £889k |
| 14 | Debtor Accrual - Overstated | 2,281 | 4,323 | 12 | £2.28m Error # 21,24,25 | £2.04m |
| 15 | Debtor Receipt in Advance | 919 | 1,016 | 12 | £919k Error # 26,27,28 | £97k |

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ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

The following adjusted disclosure matters were noted:

- Disclosure changes to the EFA Note
- Disclosure changes to the Pension Scheme Notes
- Disclosure changes to the HRA Statement notes
- Disclosure changes to the Financial Instrument Note
- Disclosure changes to the PPE Notes and Investment Property Notes
- Disclosure additions for Intangibles
- Disclosure changes to the Unusable Reserve Notes and Capital Financing notes
- Disclosure changes to Senior Remuneration Disclosures
- Disclosure changes to Cash and Cash Equivalent Note
- Disclosure changes to the Group Accounts

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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| | Issue | Comments |
|---|---|---|
| 1 | Significant difficulties encountered during the audit. | Our work identified a significant number of issues in relation to: <ul style="list-style-type: none"> Quality of working papers provided; Quality of draft accounts provided for audit; and Poor internal review of evidence provided for samples requested. |
| 2 | Written representations which we seek. | We enclose a copy of our draft representation letter. |
| 3 | Any fraud or suspected fraud issues. | No exceptions to note. |
| 4 | Any suspected non-compliance with laws or regulations. | No exceptions to note. |
| 5 | Significant matters in connection with related parties. | No exceptions to note. |

COMMUNICATION AND REPORTS ISSUED

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Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

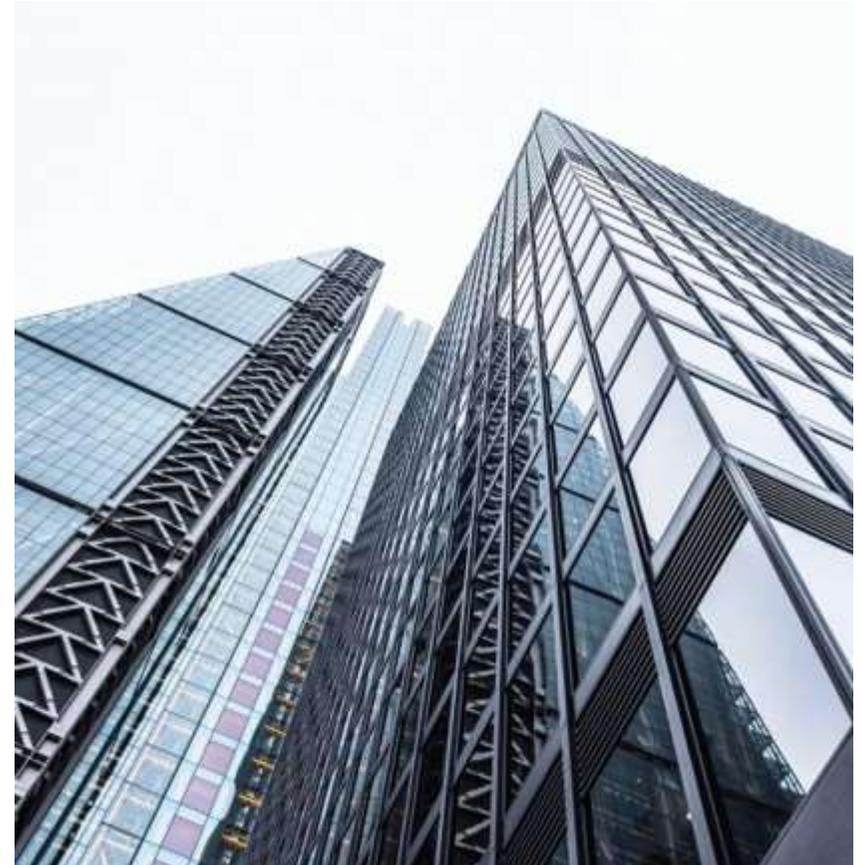
| Communication | Date communicated | To whom |
|---|---------------------------|-------------------------------|
| Audit Plan | 21 December 2018 | Audit and Standards Committee |
| Report on significant weaknesses in internal controls / first audit progress report | 22 October 2019 | Audit and Standards Committee |
| Second audit progress report | 3 February 2020 | Audit and Standards Committee |
| Interim audit completion report | 27 April 2020 | Audit and Standards Committee |
| Audit Completion Report | 27 July 2020 | Audit and Standards Committee |
| Annual Audit Letter | Expected 16 November 2020 | Audit and Standards Committee |

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

- Completion of group accounts audit;
- Review of final set of financial statements (once provided);
- Partner and Quality Reviewer reviews;
- Clearance of review points arising from reviews; and
- Subsequent events (this cannot be completed until the date of signing).



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AUDIT QUALITY



BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

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Letter of representation

London Borough of Barking and Dagenham
Council letter headed paper

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Lisa

Financial statements of London Borough of Barking and Dagenham Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Deputy Chief Executive and Chief Operating Officer has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note xx to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

- *Valuation of Property, Plant and Equipment;*
- *Pensions assumptions;*
- *Provisions;*
- *Accruals;*
- *Prepayments;*
- *Bad debt calculation; and*
- *Assumptions made in revenue recognition policies.*

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Significant representations to be confirmed.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Claire Symonds
The Deputy Chief Executive and Chief Operating Officer
 date

Cllr Princess Bright
Chair of the Audit and Standards Committee
 date

FOR MORE INFORMATION:

Lisa Clampin

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m: 07791 397160
e: Lisa.Clampin@bdo.co.uk

Satinder Jas

t: 020 7893 2586
m: 07971 716511
e: Satinder.Jas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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AUDIT AND STANDARDS COMMITTEE**27 July 2020**

| | |
|---|--|
| Title: Schedule of Subsidiaries Report based on 2018/19 figures | |
| Report of the Finance Director (Section 151 Officer) | |
| Open Report | For Information |
| Report Author: Thomas Mulloy, Chief Accountant | Contact Details: E-mail: Thomas.Mulloy@lbbd.gov.uk |
| Accountable Director: Philip Gregory, Finance Director | |
| Accountable Strategic Leadership Director: Philip Gregory, S151 Officer | |
| Summary | |
| This report sets out the number of subsidiaries owned by the Council. Appendix 1 sets out the activities along with turnover amount for each subsidiary. | |
| Recommendation(s) | |
| The Committee is asked to note the contents of this report. | |
| Reason(s) | |
| The Council is required to produce a Statement of Accounts which includes a Group Accounts. As the Council owns a number of subsidiaries, these subsidiaries are required to be consolidated into the Group Accounts. | |
| The Group Accounts is subject to a statutory audit along with the Council's single entity accounts. | |

1. Introduction and Background

- 1.1 This report sets out the number of subsidiaries under Council's control.
- 1.2 This report was requested at the previous Audit and Standards Committee. The aim of this report is to inform the Members of the subsidiaries under Council's control.

2. Council's Subsidiaries

- 2.1 The Council has a number of subsidiaries which may be broken down into five groups:
 - B&D Energy Ltd
 - Reside Group
 - B&D Trading Partnership Group
 - Be First (Regeneration) Ltd
 - BDSIP Limited

- 2.2 Each subsidiary is required to produce a statutory accounts. These, depending on size and nature of relationship, are subject to an annual audit, and in turn consolidated into the Council's Group Accounts. This is audited by our external auditor, BDO LLP.
- 2.3 Appendix 1 sets out the activity of each subsidiary along with the turnover amount. This is taken from the 2018-19 accounts.

3. Financial Implications

- 3.1 These have been addressed in the body of this report.

4. Legal Implications

Implications completed by Dr Paul Feild Senior Governance Lawyer

- 4.1 The method of carrying out the Council Accounting is prescribed by law, being the Local Audit and Accountability Act 2014.
- 4.2 The Act requires that the Council as a relevant body must have its accounts audited. The procedure is set out in the Accounts and Audit Regulations 2015. Furthermore, the application of the policies will be in accordance with the professional standards guidance as set by the Chartered Institute of Public Finance and Accountancy.
- 4.3 It is a standard requirement that there is a consistency in approach in terms of treatment of accounting of the Council's finances to ensure that proper comparison is made of the transactions and that there is sound stewardship and governance of the Council's financial affairs.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices:

- Appendix 1 – Schedule of Subsidiaries 2018/19

Appendix 1 – Schedule of Subsidiaries

| COMPANY NAME | ACTIVITY | TURNOVER IN 2018/19 |
|---|---|---------------------|
| B&D Energy Ltd | B&D Energy Ltd is a wholly owned subsidiary of the London Borough of Barking and Dagenham established to drive Barking & Dagenham to become the “green capital of the capital”. Delivering low carbon and zero energy carbon projects throughout the borough and east London area. Company receives revenue from leisure centres and residents through supply of gas and electricity. | £1,856,378 |
| Barking and Dagenham Reside Ltd | This is a wholly owned subsidiary, which provides 477 affordable rented properties in the Barking area. The properties are based at the Eastern End of Thames View and William Street Quarter and range from 50% - 80% of market rent. | £79,507 |
| Barking and Dagenham Reside Roding Ltd | This is a wholly owned subsidiary which was set up to build and sell shared ownership properties to East Homes Ltd. The homes are being built on the Gascoigne Estate as part of a regeneration project for the area. These will then be sold and managed by East Homes Ltd. Properties are currently under construction and will be ready in 2019. | £31,322,150 |
| Barking and Dagenham Reside Regeneration LLP | This is a wholly owned subsidiary, which is also a partner in Abbey Roding LLP and B&D Reside Regeneration LLP. This is a partnership set up to build, sell and manage shared ownership properties on the Gascoigne estate as part of a regeneration project for the area. Properties are currently under construction and will be ready in 2019 | £26,064 |
| Barking and Dagenham Abbey Roding LLP | Barking and Dagenham Abbey Roding LLP is a partnership which is 99% owned by the Council. It provides 144 affordable rented properties in Abbey Road in Barking, at 80% of market rent. | £1,671,219 |
| TPFL Regeneration Ltd | This is a wholly owned subsidiary, which was set up to build 477 new homes that were later managed by Barking and Dagenham Reside Ltd. | Nil |
| Resides Weavers LLP | The organisation is 10% owned by the Council and 90% owned by the Charity. It was party to the Development agreement to build 189 affordable rent properties and is now the landlord for the 189 affordable rent properties that have been built. Weavers LLP has a loan with the Council that enabled the build costs to be funded. Right to Buy | £1,593,591 |

| COMPANY NAME | ACTIVITY | TURNOVER IN 2018/19 |
|---|--|---|
| | Receipts were also drawn down from the Council to fund part of the Build costs. | |
| Barking and Dagenham Trading Partnership Ltd | This is the parent company of a group of five wholly owned subsidiaries summarised below, which was established to provide cleaning, catering and repairs and maintenance services. The group provides competitively priced services to the council and to external entities with the aim of delivering dividends to the council | Group Total Revenue £27,982,505 |
| <i>BD Management Services Ltd.</i> | This is an indirectly controlled subsidiary of the Council. It provides repairs and maintenance services to the Council's housing stock and the corporate buildings under contract awarded contracts awarded directly through the TECKAL exemption from public procurement. | £14,514,865 |
| <i>BD Service Delivery Ltd</i> | This is an indirectly controlled subsidiary of the Council, the parent company being Barking & Dagenham Trading Partnership Ltd. At present it is a dormant company, with plans to deliver repairs and maintenance services to the Council and external clients | <i>Dormant</i> |
| <i>BD Together Ltd</i> | This is an indirectly controlled subsidiary of the Council, the parent company being Barking & Dagenham Trading Partnership Ltd. It provides catering, cleaning and data Services to Schools and private organisations within the Borough | £11,289,203 |
| <i>BD Corporate Cleaning Ltd. (Formerly Known as We Fix London)</i> | This is an indirectly controlled subsidiary of the Council, the parent company being Barking & Dagenham Trading Partnership Ltd. It provides cleaning services to the Council | £1,900,370 |
| <i>Londoneast-UK Ltd.</i> | This is an indirectly controlled subsidiary of the Council, the parent company being Barking & Dagenham Trading Partnership Ltd. It provides serviced offices, facilities management, support services to businesses in the borough. | £1,323,495 |
| Be First (Regeneration) Ltd | Be First is a Council owned company with a remit of accelerating the pace and scale of regeneration in the Borough, whilst delivering affordable housing and shaping inclusive, sustainable and healthy communities for the future. Trading activities includes: planning, regeneration and development activities. | £10,871,044 |
| Barking & Dagenham School | Owned by both LBBD (19% share) and member of schools – operating independently, providing range of professional support services to schools and | £2,855,968 |

| COMPANY NAME | ACTIVITY | TURNOVER IN 2018/19 |
|------------------------------------|--|----------------------------|
| Improvement Partnership Ltd | other educational organisations, such as school improvement and curriculum support, attendance, inclusion and SEND, careers and governor support, ICT support. | |

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AUDIT AND STANDARDS COMMITTEE

27 July 2020

| | |
|--|---|
| Title: Counter Fraud Annual Report 2019/20 | |
| Report of the Acting Deputy Chief Executive and Director of Law, Governance & HR | |
| Open Report | For Information |
| Report Author: Kevin Key, Counter Fraud Manager | Contact Details: Tel: 07870278102 E-mail: Kevin.Key@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Fiona Taylor, Acting Deputy Chief Executive and Director of Law, Governance & HR | |
| Summary This report brings together all aspects of counter fraud work undertaken throughout 2019/20. The report details progress and results for the period 1 April 2019 to 31 March 2020. | |
| Recommendation(s) The Audit and Standards Committee is recommended to note the contents of the report. | |
| Reason(s) To provide the Committee with assurance over the arrangements for protecting the Council against fraud and corruption. | |

1. Summary of Counter Fraud work undertaken for 2019/20

- 1.1 The tables below indicate the level of work completed in the two separate areas for which the team are responsible, Housing and Corporate Fraud.

2. Corporate Fraud Activity including Whistleblowing

- 2.1 The update on corporate fraud activity for Quarter 4 along with the annual totals is set out below. The team receives many referrals throughout each quarter and log and assess each case independently. A decision is then made as to what the best course of action is to deal with the referral. This means either the team will open an investigation, refer to another service block of the Council or arrange for the matter to be referred to a specific manager for action.

2.2 Fraud referrals to date including whistleblowing:

| | 18/19 Total | Q1 | Q2 | Q3 | Q4 | 19/20 Total |
|--|----------------|----|----|----|----|----------------|
| Cases Outstanding from last quarter | | 8 | 8 | 4 | 5 | |
| Referrals received in Period | 246 | 46 | 50 | 54 | 70 | 220 |
| Cases accepted for investigation | 43 | 15 | 11 | 6 | 13 | 45 |
| No further Action after initial review/already known | 28 | 14 | 5 | 4 | 5 | 28 |
| Referred to other service block within LBBB | 165 | 17 | 34 | 42 | 52 | 145 |
| DPA, FOI, and other information provided | 76 | 11 | 14 | 12 | 10 | 47 |
| Cases closed following investigation | 38 | 15 | 15 | 5 | 7 | 42 |
| Ongoing Corporate Fraud Investigations: | | 8 | 4 | 5 | 11 | |

2.3 The data demonstrates what action is being taken on referrals received. We have also added to the outcomes section referrals made directly to the Police/Action Fraud.

2.4 The referrals received relate to the number of cases that are sent through to the Fraud email inbox or where contact is made directly with members of the team. All contact is logged and assessed accordingly. Many referrals are sent through in the genuine belief that fraud has been committed, but following assessment, they are found to be better dealt with elsewhere.

2.5 We receive requests that relate specifically to CCTV, Subject Access, Freedom of Information and Data Protection as well as referrals relating to Housing Benefits, Council Tax, Department for Work & Pensions, Complaints, Parking Enforcement, Housing services, noise nuisance, Housing Association properties, Planning, Private Sector Licencing, Police matters and Trading Standards. In short, if there is a possible consideration of fraud, we are likely to have received a referral either via email or phone.

2.6 Outcomes for 2019/20:

| | 18/19 Total | Q1 | Q2 | Q3 | Q4 | 19/20 Total |
|--|----------------|----|----|----|----|----------------|
| Recommended for disciplinary process/New cases as a result | 3 | 1 | 1 | 0 | 1 | 3 |
| Referred for Management action | 10 | 6 | 3 | 3 | 2 | 14 |
| No fraud/No further action | 10 | 5 | 7 | 2 | 1 | 15 |
| Referred to Police/Action Fraud | | 3 | 4 | 0 | 3 | 10 |

3. Current and future key issues – Corporate

- 3.1 In relation to a previously reported case of a staff member formerly employed by Be First, final checks were completed during Quarter 4 and discussions had with Legal that resulted in a decision that it did not warrant progression to a criminal prosecution. The casefile and evidence obtained was referred to Be First for them to proceed with Civil Action in respect of the money that was spent on the Corporate Procurement Card.
- 3.2 There have been further attempted cyber scams reported to the Counter Fraud team. Staff around the Council appear to be increasingly referring these matters to the team which would suggest the publicity and work undertaken in Quarters 1 & 2 has worked in raising the profile of this issue.
- 3.3 The team have begun investigations into several cases within Adult Care Services. Working closely with the Visiting team, referrals have been made which suggest fraudulent activity in relation to Direct Payments being made to support clients in the Borough. A summary of some of the case is as follows.
- A client has been found to have visited Dubai with her family and withdrawn thousands from an account set up to make payments for a carer for her child.
 - A daughter has been found to have withdrawn a large sum of money from her mother's account (while holding Power of Attorney) in order to seemingly bypass the need to make a client contribution to her mother's care (mother is in a care home and suffers from dementia).
 - A client has been found to have been out of the country for at least the last year whilst continuing to receive Direct Payments. This client is also believed to be subletting her council property.

4. Regulation of Investigatory Powers Act

- 4.1 The Regulation of Investigatory Powers Act regulates surveillance powers, thus ensuring robust and transparent frameworks are in place to ensure its use only in justified circumstances. It is cited as best practice that Senior Officers and Members maintain an oversight of RIPA usage.
- 4.2 A telephone and desktop-based inspection of the Council's approach was carried out by the Investigatory Powers Commissioner's Office (IPCO) in April 2020. The Inspector concluded that the information provided demonstrated a level of compliance that removes the requirement for a physical inspection for the time being and noted that both recommendations from the previous inspection in 2016, relating to the revision of the Council's RIPA policy and the enhancing of CCTV protocols, have been completed and can now be discharged. The Inspector also made positive comments about the Council's commitment to maintaining RIPA compliance.
- 4.3 The current statistics are set out below following review of the central register, held by the Counter Fraud Manager. As per previous guidelines, RIPA authority is restricted only to cases of suspected serious crime and requires approval by a Magistrate.

(a) Directed Surveillance

The number of directed surveillance authorisations granted during 2019/20 and the number in force at 31 March 2020 -

Nil granted. Nil in force.

(b) Communications Information Requests

The number of authorisations for conduct to acquire communications data (e.g. mobile phone data) during 2019/20 -

Nil granted.

4.4 Officer training was completed for RIPA throughout January and February 2020. Details of staff who successfully completed the day's training and associated test will be authorised to complete future RIPA applications and their details have been added to a central RIPA register held by the Counter Fraud Manager.

4.5 Arrangements will be made to publicise to all staff (through the staff briefing, managers' briefing and screen backgrounds) the appropriate use of any surveillance being undertaken and the process to be followed.

5. Housing Investigations

5.1 Members are provided specific details on the outcomes from the work on Housing Investigations. For 2019/20, outcomes are set out below.

5.2 Housing Investigations 2019/20:

| | 18/19 Total | Q1 | Q2 | Q3 | Q4 | 19/20 |
|----------------------------|----------------|----|----|----|----|-------|
| Caseload | | | | | | |
| Open Cases brought forward | | 27 | 37 | 29 | 27 | |
| New Cases Added | 166 | 49 | 31 | 32 | 31 | 143 |
| Cases Completed | 154 | 39 | 39 | 34 | 42 | 154 |
| Open Cases | | 37 | 29 | 27 | 16 | |

| On Going Cases - Legal Action | Q1 | Q2 | Q3 | Q4 |
|--------------------------------------|----|----|----|----|
| Notices Seeking Possession served | 1 | 0 | 1 | 0 |
| No of Cases - Recovery of property | 4 | 4 | 4 | 4 |

| Outcomes - Closed Cases | 18/19 Total | Q1 | Q2 | Q3 34 | Q4 42 | 19/20 Total |
|--|----------------|----|----|-------|-------|----------------|
| Convictions | 0 | 0 | 0 | 0 | 0 | 0 |
| Properties Recovered | 14 | 0 | 3 | 1 | 5 | 9 |
| Successions Prevented & RTB stopped/agreed | 15 | 14 | 12 | 13 | 5 | 44 |

| | | | | | | |
|---|------------|----------|----------|----------|----------|------------|
| Savings (FTA, Single Person CTax, RTB, Decant) | £1,075,995 | £104,000 | £621,926 | £556,200 | £108,257 | £1,390,383 |
| Other Potential Fraud prevented/passed to appropriate service block incl Apps cancelled | 58 | 12 | 14 | 8 | 12 | 46 |
| Referral to others outside of LBBB | 1 | 0 | 0 | 0 | 0 | 0 |
| No further action required/insufficient evidence | 66 | 13 | 10 | 12 | 20 | 55 |

5.3 In addition to the above other checks are routinely carried out and information provided to others. Below is an indication of the level of work undertaken:

| | Q1 | Q2 | Q3 | Q4 | 19/20 Total |
|--------------------------|----|-----|-----|----|-------------|
| Data Protection Requests | 8 | 10 | 6 | 5 | 29 |
| Education Checks | 84 | 143 | 108 | 95 | 430 |

(n.b. education checks relate to assisting admissions in locating children or families to free up school places or confirm occupancy. Data Protection Requests are received from other local authorities, the Police, and outside agencies and responses provided in accordance with GDPR).

6. Current & future key issues – Housing

- 6.1 Right to Buy money laundering checks continue to be completed to ensure the source of any cash purchase element of a Right to Buy property is from a reputable source.
- 6.2 Following a trial in October 2019, a decision was finally reached by the courts to award possession of a property back to the Council in January 2020. The tenant had been subletting her property for several years and living abroad during this time. The eviction was scheduled for 2 April but because of Covid 19 this has now been placed on hold until restrictions are lifted.
- 6.3 The team have undertaken training for the new Capita system alongside providing training and support to Reside staff on how to best make use of the systems they access.

7. Financial Implications

Implications completed by Katherine Heffernan, Group Manager, Service Finance

- 7.1 There are no specific financial implications arising from this report.

8. Legal Implications

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 8.1 There are no specific legal implications arising from this report.

9. Other Implications

- 9.1 **Risk Management** – Counter Fraud activity is risk-based and therefore supports effective risk management across the Council.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices: None.

AUDIT AND STANDARDS COMMITTEE

27 July 2020

| | |
|---|---|
| Title: Internal Audit Annual Report 2019/20 | |
| Report of the Acting Deputy Chief Executive and Director of Law, Governance & HR | |
| Open Report | For Information |
| Report Author: Christopher Martin, Head of Assurance | Contact Details: Tel: 020 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Fiona Taylor, Acting Deputy Chief Executive and Director of Law, Governance & HR | |
| Summary This report outlines the Internal Audit work carried out for the year ended 31 March 2020. The internal audit annual report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “generally satisfactory with some improvements required”. | |
| Recommendation(s) The Committee is recommended to note the contents of the report. | |
| Reason(s) To provide an Internal Audit Opinion on the Council's framework of governance, risk management and control that helps to evidence the effectiveness of systems as set out in the Annual Governance Statement. | |

1 Internal Audit Annual Report 2019/20

- 1.1 This report outlines the Internal Audit work carried out for the year ended 31 March 2020.
- 1.2 The report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “*generally satisfactory with some improvements required*”. All 2019/20 audit reports were at final report stage prior to presenting this report.
- 1.3 The Internal Audit Annual Report is set out at Appendix 1.

2 Legal Implications

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 2.1 The Accounts and Audit (England) Regulations 2015 section require that: a relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 2.2 Furthermore, the Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 2.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against it. We will enhance our provision further by making best use of existing legislation, for example the Proceeds of Crime Act 2002, to ensure that funds are recovered, where possible by the Council.

3 Financial Implications

Implications completed by: Katherine Heffernan, Group Manager, Service Finance

- 3.1 Internal Audit is fully funded as part of the Council's Finance Service. It is a key contribution to the overall management and control of the Council and its stewardship of public money. The recommendations and improvements as a result of its findings will be implemented from within existing resources. There are no further financial implications arising from this report.

4 Other Implications

- 4.1 **Risk Management** – Internal Audit activity is risk-based and therefore supports effective risk management across the Council.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices:

- Appendix 1: Internal Audit Annual Report 2019/20

Appendix 1: Internal Audit Annual Report 2019/20

Contents:

1. Introduction
2. Head of Internal Audit Opinion
3. The 2019/20 Internal Audit service
4. 2019/20 Internal Audit work conducted
5. Progress against audit plan
6. Results of the Internal Audit work
7. Internal Audit performance
8. Appendices

1. Introduction

This report outlines the work that Internal Audit have carried out for the year ended 31 March 2020.

The Public Sector Internal Audit Standards require the Chief Audit Executive (Head of Assurance) to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Standards Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The 2019/20 Internal Audit Plan, approved by the Audit and Standards Committee, included 29 audits, consisting of 27 risk and compliance audits, a risk assessment of schools and a project to follow-up prior year work in schools. 41 audits were delivered, consisting of 29 risk and compliance audits, 10 audits of schools, the schools' risk assessment and the schools' follow-up work. Reasons for variations in the plan were reported quarterly to the Audit and Standards Committee.

Internal Audit work was performed in accordance with the Public Sector Internal Audit Standards. The annual Internal Audit report is timed to inform the organisation's Annual Governance Statement.

2. Head of Assurance Opinion

I am satisfied that sufficient Internal Audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

My opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.

- Any significant recommendations not accepted and/or addressed by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.

My opinion is as follows:

Generally satisfactory with some improvements required.

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

An explanation of the types of opinion that may be given can be found in Appendix 2.

I would like to take this opportunity to thank Council officers for their co-operation and assistance provided during the year.

3. The 2019/20 Internal Audit service

The in-house team has consisted of one substantive post, an Auditor working towards the Institute of Internal Auditors qualification. The Head of Assurance is the Council's Chief Audit Executive and splits his time between Internal Audit, Counter Fraud, Insurance and Risk Management.

The Internal Audit service continued to be supported throughout 2019/20 by Mazars through the Council's contract with LB Croydon and also PwC via the contract with LB Islington.

Internal Audit has remained independent of the business in 2019/20 and has had no direct operational responsibility or authority over any of the processes reviewed.

4. 2019/20 Internal Audit work conducted

The approved 2019/20 internal audit plan consisted of:

- 27 risk and compliance internal audits.
- 1 risk assessment of schools to determine where to focus the audits.
- 1 follow-up project of prior year work in schools.

Ten risk and compliance audits and fourteen school audits were added to the plan in the year as follows:

- Social Care Forecasting – added in Q3 following discussion with the Director of People and Resilience
- Education, Health & Care Plans – added in Q3 following discussion with the Director of People and Resilience
- Homelessness: Southwark Judgement – added in Q3 following discussion with the Director of People and Resilience
- Retrospective Purchase Orders – added Q4 following Head of Assurance attendance at Procurement Board
- Children's Transportation Commissioning – added in Q3 following risk review by Head of Assurance
- Capital Programme (Be First) – added in Q3 following discussion with the Finance Director
- Right to Buy & Sales Leasing – added in Q3 following discussion with the Director of Law, Governance and HR
- Stewardship of Council Vehicles – added following a referral to the Counter Fraud Team
- Data Transparency – added in Q3 following risk review by Head of Assurance
- Emergency Planning and Business Continuity – added in Q3 following Limited Assurance review
- Fourteen school audits added following the schools' risk assessment in Quarter 1:
 - All Saints Catholic Secondary
 - Beam Primary School
 - Becontree Primary School
 - Dagenham Park Secondary School
 - Grafton Primary School
 - Hunters Hall Primary School
 - Jo Richardson Community School
 - Richard Alibon Primary School
 - Ripple Primary School
 - Robert Clack Secondary School
 - Southwood Primary School
 - Marks Gate Junior School
 - Eastbury (all through) School
 - George Carey Primary School

The following twelve (8 risk and compliance and 4 schools) audits were deferred or cancelled as follows:

- Charging Policy – policy implementation delayed. Deferred to 2020/21.
- Special Guardianship Orders – assurance taken from other very similar audit. Deferred to 2020/21.
- Mainstay Contract Management – deleted in Q3 following risk review by Head of Assurance
- Brexit Impact – delays to the Brexit process. Deferred to 2020/21.
- Adaptations Grant Scheme – scheme ceased.
- Education, Health and Care Plans – service review not reporting until February 2020. Deferred to 2020/21.

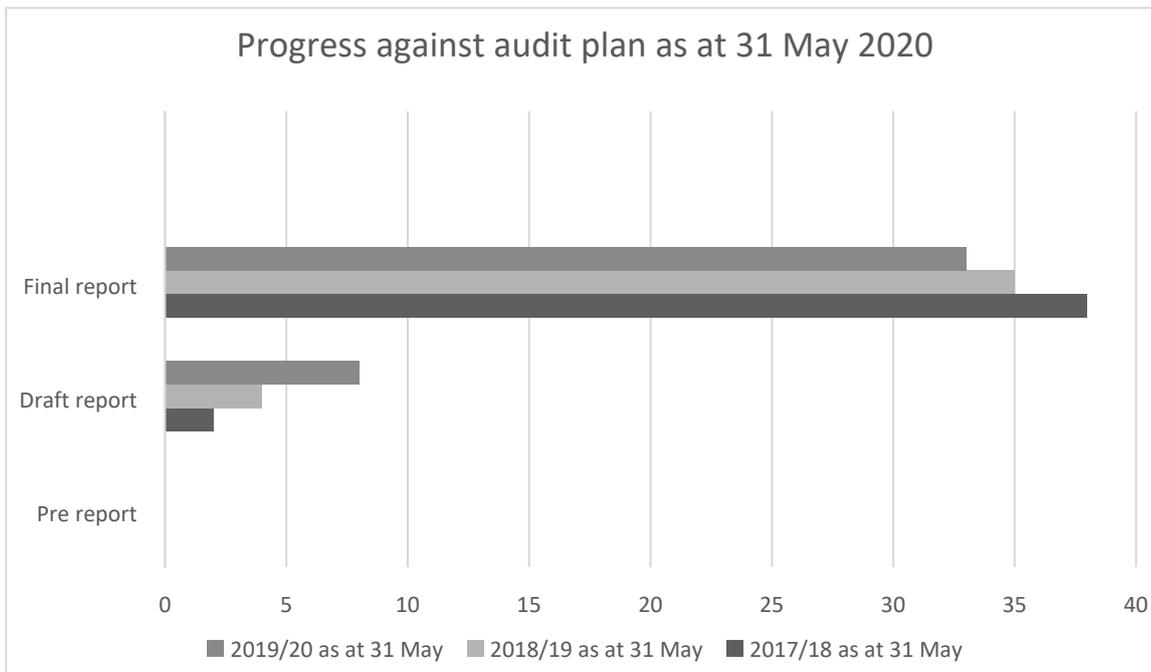
- Homelessness: Southwark Judgement – service impacted by COVID-19. Deferred to 2020/21.
- Emergency Planning and Business Continuity F/up – service impacted by COVID-19. Deferred to 2020/21.
- Beam Primary School – audit started but abandoned when schools closed due to COVID-19. Deferred to 2020/21.
- Southwood Primary School – audit started but abandoned when schools closed due to COVID-19. Deferred to 2020/21.
- Marks Gate Junior School – became part of the new Rose Lane Primary School. Deferred to 2020/21.
- Eastbury (all through) School – audit started but abandoned when schools closed due to COVID-19. Deferred to 2020/21.

5. Progress against audit plan

Of the remaining 41 audits (29 risk and compliance and 12 audits of schools), as at 31 March 2020, 1 was at draft report and 24 at final report stage with the remainder still at fieldwork stage. The total of 61% at report stage fell short of the target of 80%.

During April and May 2020, further progress was made in finalising draft reports meaning that, as at 31 May 2020, 8 were at draft report and 33 at final report stage. This met the target of 100% at report stage by this date. All reports have since moved to being final reports.

| Progress Status | 2019/20 | | 2018/19 | | 2017/18 | |
|-----------------|-------------|-----|-------------|-----|-------------|-----|
| | 31 May 2020 | | 31 May 2019 | | 31 May 2018 | |
| Final Report | 33 | 80% | 35 | 90% | 38 | 92% |
| Draft Report | 8 | 20% | 4 | 10% | 2 | 8% |
| Pre-report | 0 | 0% | 0 | 0% | 0 | 0% |
| TOTAL | 41 | | 39 | | 40 | |



6. Results of the Internal Audit work

Risk and Compliance audits

Internal Audit reports include a summary level of assurance using the following scale:

- Substantial Assurance
- Reasonable Assurance
- Limited Assurance
- No Assurance

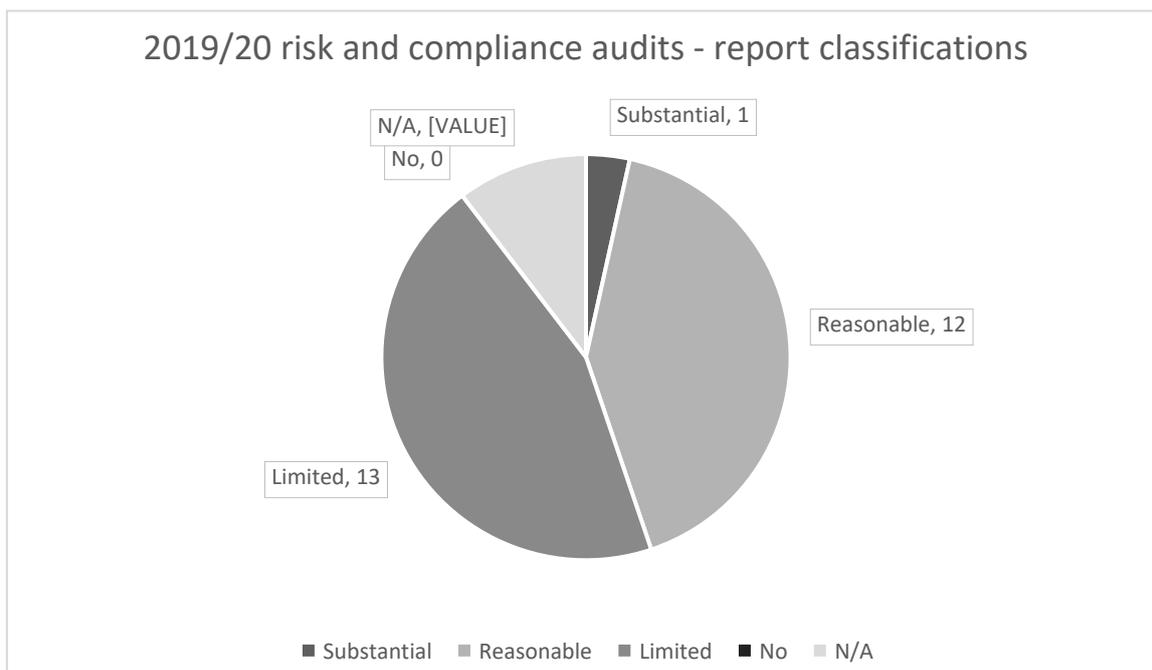
Internal Audit findings are categorised Critical, High, Medium and Low risk (or advisory) depending upon the impact of the associated risk attached to the recommendation.

Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 29 risk and compliance 2019/20 internal audits:

| Audit | Opinion | Number of Findings | | | |
|-----------------------------------|------------|--------------------|------|--------|-----|
| | | Critical | High | Medium | Low |
| Liquidlogic System Implementation | Limited | 0 | 2 | 1 | 1 |
| Housing System Implementation | N/A | - | - | - | - |
| Debt Recovery & Write-offs | Limited | 0 | 2 | 4 | 0 |
| Procurement | Reasonable | 0 | 1 | 1 | 0 |
| Purchase Cards | Limited | 0 | 3 | 5 | 1 |
| Elevate Contract Exit | Reasonable | 0 | 0 | 1 | 1 |
| Management of Heritage Assets | | | | | |
| Voids | Limited | 0 | 3 | 0 | 0 |
| Accounts Payable | Reasonable | 0 | 0 | 3 | 0 |

| | | | | | |
|--|-------------|----------|-----------|-----------|-----------|
| Accounts Receivable | Limited | 0 | 1 | 2 | 1 |
| Budgetary Control & Savings Management | Reasonable | 0 | 0 | 2 | 2 |
| Payroll | Reasonable | 0 | 1 | 0 | 1 |
| Oracle system | Limited | 0 | 2 | 1 | 2 |
| HR On/offboarding | Reasonable | 0 | 0 | 3 | 0 |
| KPI Monitoring and Reporting | Limited | 0 | 2 | 1 | 0 |
| Emergency Planning and Business Continuity | Limited | 0 | 2 | 1 | 0 |
| Public Health Grant | Reasonable | 0 | 0 | 4 | 2 |
| Information Security | Reasonable | 0 | 0 | 4 | 0 |
| Freedom of Information Requests | Limited | 0 | 2 | 2 | 2 |
| Passenger Transport | Limited | 0 | 2 | 1 | 0 |
| Commercial Waste | Reasonable | 0 | 1 | 0 | 0 |
| Private Sector Housing | Substantial | 0 | 0 | 0 | 0 |
| Social Care Forecasting | Reasonable | 0 | 0 | 2 | 1 |
| Children's Transportation Commissioning | Limited | 0 | 1 | 3 | 0 |
| Capital Programme - Be First | N/A | 0 | 4 | 0 | 0 |
| Right to Buy & Sales Leasing | Limited | 0 | 2 | 9 | 1 |
| Stewardship of Council Vehicles | Limited | 0 | 3 | 1 | 0 |
| Data Transparency | Reasonable | 0 | 0 | 1 | 3 |
| Retrospective Purchase Orders | N/A | 0 | 0 | 0 | 0 |
| Total | | 0 | 34 | 52 | 18 |



There were as many 'Limited Assurance' reports issued in 2019/20 as the more positive 'Substantial Assurance' or 'Reasonable Assurance' reports. This demonstrates that Internal Audit resources continue to be focused in the most appropriate areas and are effective at adding value to the organisation.

We issued thirteen "Limited Assurance" report in the year as follows:

| Title | Summary of findings and current progress to address reported high-risk findings |
|---|--|
| <p>Liquid Logic System Implementation</p> <p>The objective of this audit was to evaluate the control design and operating effectiveness of key controls in place over Liquid Logic Access.</p> | <p>Liquid Logic had been in place within the Council for about a year. While the system is maintained by Liquid Logic itself there is a Liquid Logic team within the Council who are responsible for ensuring that access to information within Liquid Logic is secured. Internal Audit has observed through testing a number of instances of good practice. In particular it was noted that there was a high level of challenge for non-social workers attempting to access information or gain access to reports, with a focus on minimising the number of people with access to sensitive records. This was also reflected in the requirement for social workers to review the access logs to the records they control to ensure that team members only access these records when they have a valid need to (such as providing holiday cover).</p> <p>However, while we have seen examples of good practice there is a lack of rigour around the documentation and recording of actions taken. This limits accountability for users if information was to be lost. We identified two high risk findings that highlight these issues:</p> <ul style="list-style-type: none"> • User Access to Liquid Logic - The Liquid Logic team do not currently have a single storage site for user access requests and as a result they were unable to demonstrate the approval of seven users out of 25 tested where access to the system was granted. They are also not currently notified of leavers by HR and as a result two users were identified who have left the Council but not been removed from the access from the system. The Council tries to minimise this risk through a recertification but this is not done on regularly but on an ad hoc basis when resources allow. • Inventory of management reporting - The Council produces a significant number of management reports using information from Liquid Logic. They do not currently have a complete inventory of all these reports and who receives them. Without this inventory there is a lack of accountability for who is receiving these reports and what they are doing with them. This could lead to a data breach if they are shared with the incorrect people or misplaced/lost. <p>There were also one medium risk finding.</p> <p><i>Internal Audit follow-up currently in progress.</i></p> |
| <p>Debt Recovery & Write-offs</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over Debt Recovery and Write-offs in Adult Social Care.</p> | <p>The overall debt recovery & write off management process currently in place for Adult Social Care is very manual due to limitations in the capability of Oracle. This makes the process to chase debts very time consuming and with less than one FTE assigned to this a significant back log (approximately £1.6 million) of debts has developed that needs to be recovered or written-off.</p> <p>We identified two high risk findings that needed to be address by the Council and Elevate:</p> <ul style="list-style-type: none"> • Backlog in the follow up of debtors – There is a process in place to chase debtors after 28 days of the invoice being issued through a series of emails and calls to the debtor. A review of a sample of aged debtors revealed that this process is not always followed and that in 23 of 25 |

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| | <p>debts tested there were significant delays in chasing the debtor, for instance in 13 instances no action had been taken to chase the debts. This appears to be the result of a very manual process with basic operations such as sending chaser emails, tracking the current state of debtors and tracking the progress of addressing queries to the Council being done manually outside the system.</p> <ul style="list-style-type: none"> • Debts not being taken to court due to concerns about the quality of the data on historic debt – Elevate is not currently pursuing any historic debts through Court action. This is because previous attempts to recover debts in this way have been hampered by issues with the accuracy the records supporting the liabilities. <p>There were also four medium risk findings.</p> <p><i>The Director of Community Solutions is leading a project on the Council's corporate approach to debt management that will address these actions.</i></p> |
| <p>Purchase Cards</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over the use of Purchase Cards with a particular focus between April and June 2019.</p> | <p>Purchase cards are issued and managed on behalf of LBBB by the Procurement and Accounts Payable team currently within Elevate East London. As at June 2019 there were 96 corporate cards in use, which had been used to purchase goods to the value of £191,538.10. Purchase cards are operated in a similar manner to domestic credit cards and are issued to individual users based on need and are intended for low value purchases when it is not possible to use the Council's standard procurement procedures. Before purchase cards are issued individual training is delivered by Procurement and Accounts Payable and a copy of Purchasing Cardholder Policy is issued. This policy is also available to card holders on the intranet.</p> <p>We identified three high risk findings:</p> <ul style="list-style-type: none"> • Security of cards – Purchase cards were not always kept secure and a small number of instances of card users sharing cards with colleagues were identified. • Retention of documentation – Only one card user of 20 was able to provide receipts for every purchase made during the testing period of April to June 2019. • Inappropriate expenditure – Three transactions which were inappropriate and could not be justified as meeting business needs were identified. These were immediately and robustly dealt with. <p>There were also five medium risk findings.</p> <p><i>The Training Slide Deck has been updated to reflect the findings of the audit and the User Guide has also been updated for the benefit of all Cardholders. This Guide was re-issued to all existing Cardholders and now issued as standard to all new holders.</i></p> <p><i>Immediate management action was taken as necessary in the areas identified as having inappropriate expenditure.</i></p> |
| <p>Voids</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over voids during April 2019 to June 2019.</p> | <p>Housing voids are managed by Landlord Services within My Place, who commission BD Management Services Ltd to carry out the management of refurbishment and maintenance works within void properties in order to ensure properties are ready to re-let within a timely manner once it has become vacant.</p> <p>Three high risk findings were identified:</p> <ul style="list-style-type: none"> • Lack of operational procedures – (My Place) – Documented operational procedures were not in place for the voids process within My Place. • Incomplete operational procedures (BDMS) – Operational procedures for the voids process within BDMS were out of date or incomplete. |

| | |
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| | <ul style="list-style-type: none"> Unclear expectations of performance and oversight of BDMS – Expectations of standards, quality and performance had not been clearly defined and communicated. <p><i>All agreed actions have been implemented.</i></p> |
| <p>Accounts Receivable</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over Accounts Receivable.</p> | <p>The London Borough of Barking and Dagenham (LBBB) has a wide variety of income sources ranging from payments made for council services such as pest control, to various fines and charges in areas such as parking. This income all must be billed and collected.</p> <p>Currently, all invoices are raised on a self-service basis through Oracle by the relevant council teams. The debt collection processes i.e. the chasing and follow up on the payment of invoices was done by Elevate East London.</p> <p>This review has looked at the end to end process and we have found that invoice processing is generally timely and accurate. For instance, we noted that in the entire year only five invoices have taken more than 30 days to process. However, management within the Council struggled to provide evidence to support some invoices processed and some of the credit notes raised as part of our testing. This may be down to poor storage of this information, as none of the areas audited used any formal system or shared folder to store the information.</p> <p>There appears to be a significant issue with the amount of management information that can be extracted from the system in relation to accounts receivable and debt. In particular, there is no reporting available around the aging of debtors, limiting the ability of the team to identify blockages or problems relating to debtors or to prioritise areas where debt collection may not be effective. This reflects the fact that the functionality of Oracle is limited and in need of automation with tasks such as raising invoices requiring more intervention from the team. Management are currently looking to replace Oracle and should take this into account when scoping its replacement.</p> <p>We identified one high risk finding:</p> <ul style="list-style-type: none"> Lack of evidence for approvals of invoices and credit notes – Management were unable to provide evidence of the approval of a number of invoices and credit notes tested. This may be due to the lack of a shared folder to store these in. If these approvals did not take place it may mean that invoices and credit notes were raised inappropriately or for the incorrect values. <p>There were also two medium risk and one low risk findings.</p> <p><i>These actions are not yet due for follow-up.</i></p> |
| <p>Oracle system</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place within Oracle.</p> | <p>Oracle is the key financial system used by the Council. It is currently managed through a shared service arrangement with the London Borough of Brent. This is a long-standing arrangement with relatively mature controls. However, we have identified two high risk issues with the control framework currently in operation.</p> <p>The first of these is the access to the underlying production database that Oracle runs in. Some users have access to this who are part of the development team that develop changes. This may allow them to develop and implement unapproved changes. There is also limited audit logging off access to the database reducing the ability to monitor and prevent misuse.</p> <p>The second is around access to Oracle, which has to be approved by managers, but currently managers only check the access that is being granted not any conflicting accesses that users may already have. The help desk then grants access with no further checks as the roles/profiles within Oracle which are in conflict have not been defined. This could be result in fraud or error</p> |

| | |
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| | <p>where controls like the need for segregation of duties in the invoicing process and supplier set up and maintenance can be circumvented.</p> <p>Management are currently procuring a replacement for Oracle and so they need to consider not just how to fix these issues for the 18 months that the current version will remain in use but also to ensure these are addressed in the replacement system.</p> <p>We identified two high risk findings:</p> <ul style="list-style-type: none"> • Access to Database - Access to the database that Oracle sits on is generally restricted to the Database administrators who maintain it. However, there are three members of the Development team at the London Borough of Brent with access to the Database. This could be mitigated if a suitable audit log was in place to monitor their actions. However, no audit logging is currently in place. Without sufficient control over access to the database it may possible to circumvent the controls approving changes to Oracle. This could lead fraud if a chance was made that circumvented controls with Oracle. • Access to Oracle - Users need approval from there manager for all access rights they have for Oracle. We noted that two of the 25 starters we tested had a least one of their access rights approved by someone other than their manager. We also noted that there are no checks done by the help desk to ensure that managers are not approving access that conflicts with existing access rights. This may lead to users being granted inappropriate access leading to financial and reputational damage. <p>There were also two medium risk findings.</p> <p><i>These actions are not yet due for follow-up.</i></p> |
| <p>KPI Monitoring and Reporting</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place over KPI Monitoring and Reporting.</p> | <p>The Corporate Performance Framework is a method of monitoring the Borough's performance against the Corporate Plan and other key strategies. It is a collection of performance indicators and key accountabilities chosen to help the Borough improve in its priority areas and show progress against the long term vision as set out in the Borough Manifesto.</p> <p>The Corporate Plan sets out the KPIs that are used to measure the performance of the Borough. The Corporate Performance Framework was signed off by Cabinet in March 2018. The Corporate Plan and its approval along with the Corporate Performance Framework were published and are available to the public via the LBBB website.</p> <p>Initial targets were set alongside the Corporate Plan, in order to help achieve the goals set within both the 5-year Corporate Plan and the Borough Manifesto. Targets were required to be reviewed by the Strategic Directors, in collaboration with senior management from each department, on an annual basis.</p> <p>The responsibility for the calculation of the KPIs had been delegated to the relevant key officers within the departments. This responsibility involved collating all necessary source data, confirming the accuracy of that data, calculating the KPIs, providing commentary on the results of the KPI and providing action plans where performance was below targets. The calculation criteria for the sample of 15 KPIs selected had been set by central government if the KPI was statutory or by Strategic Directors and Councillors if the KPI was a local indicator.</p> <p>A Corporate Reporting Timetable is circulated to staff at the outset of each reporting cycle that states the deadlines at which all KPIs must be reported and when KPIs would be reviewed by the Corporate Performance Group and Cabinet. Minutes of Cabinet meetings are made available on the Council website. Subsequent to approval by the Corporate Performance Group and Cabinet, the Quarterly Performance Reports are published on the Council</p> |

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| | <p>website.</p> <p>Our testing identified two high risk findings:</p> <ul style="list-style-type: none"> • Incorrectly calculated KPIs – We identified instances where the KPI was incorrectly calculated. • Source data not available – We identified a case where KPI source data was not available. <p>There was also one medium risk finding.</p> <p><i>A new Single Performance Framework was implemented in April 2020 that incorporates a central storage of location for all corporately reported data. A rolling programme of checks of KPI calculations has also been put in place. Internal Audit will review the progress of both of these in August 2020.</i></p> |
| <p>Emergency Planning and Business Continuity</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over Emergency Planning and Business Continuity from during March 2019 to May 2019.</p> | <p>The London Borough of Barking and Dagenham are part of a tri-borough partnership with Waltham Forest and Redbridge. Prior to audit fieldwork beginning it was acknowledged that there was at the time a lack of formal Business Continuity Plans in place across the organisation.</p> <p>Due to the absence of formal Business Continuity Plans across services with the exception of Community Solutions and Civil Protection, our testing against the agreed scope of the audit was limited and we were unable to verify the operation of a number of controls and processes detailed during interviews.</p> <p>Our testing identified two high risk findings:</p> <ul style="list-style-type: none"> • Information held within the Business Continuity Plans that did exist was not always accurate and did not properly reflect the operations, structures and location of the business. • There is some evidence of the Civil Protection team trying to progress BCPs and of teams being slow or failing to respond. There is therefore a need for the organisation as a whole to give this issue greater priority. <p>There was also one medium risk finding.</p> <p><i>All agreed actions have been implemented. Of the 25 priority services, two were downgraded to non-priority and the other areas all submitted BCPs and had them quality assured. The Business Continuity Steering Group started to meet on a regular basis. A further review of this area was planned for March 2020 but deferred due to the Covid-19 pandemic and the actual enactment of BCPs.</i></p> |
| <p>Freedom of Information Requests</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over the management of Freedom of Information requests during the period December 2018 to November 2019.</p> | <p>Requests for information received in accordance with the Freedom of Information (FOI) Act 2000 are managed by the Complaints Team who log, allocate, monitor and respond to the requests. All requests must be made in writing, and a response must be provided within 20 days. Requests may be refused if they are considered to place an unreasonable burden on resources, exceed cost limits or if the personal information of a living person is included. A request cannot be refused because the information is out of date or considered to be incorrect.</p> <p>Between December 2018 and November 2019 1529 requests for information were received. Of these, 13% were not responded to within the 20 day deadline. During this audit testing included a review of internal procedures and a review of 50 requests responded to or still open during September to November 2019.</p> <p>We identified two high risk findings:</p> <ul style="list-style-type: none"> • Deadlines of FOI responses were not being met - 13% of FOI requests are not responded to within the 20-day time scale. Of 50 cases reviewed it was found that 31 did not receive reasonable follow up or escalation. |

| | |
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| | <ul style="list-style-type: none"> • Inconsistent approach to the level of seniority required to provide FOI responses – There was no consistent approach to how senior officers in each service are required to be in order to return FOI responses. <p>There were also two medium risk findings.</p> <p><i>All agreed actions have been implemented.</i></p> |
| <p>Passenger Transport</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place over the Passenger Transport Service during the period January 2019 to May 2019.</p> | <p>The Passenger Transport Service is managed within LBBD by My Place. As at 13 May 2019, there were 318 children using the Passenger Transport Service to attend eight schools, and 46 adults who use the service to attend two day centres on a rota basis. The current SLA in place for children has commissioned 23 routes, with an additional six being agreed in December 2018 in addition to this. New vehicles have been purchased to be in place by September 2019 which will have additional space and security functions such as CCTV.</p> <p>We identified two high risk findings:</p> <ul style="list-style-type: none"> • Completeness of essential records for service users – We found that complete records were not available for all service users, and that records were kept in the wrong locations / were available to staff who did not require these. • Training – We found up to date training records were not available. <p>There was also one medium risk finding.</p> <p><i>All agreed actions have been implemented.</i></p> |
| <p>Children's Transportation Commissioning</p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over Children's transport commissioning.</p> | <p>The Council has a duty to provide support to around 500 of its pupils that have some form of disability to allow them to get to school. This can be done in several ways but generally requires the provision of some form of vehicle to take them to school.</p> <p>The Council does this in two ways: They have a framework in place with a private sector organisation to provide taxis to school for some pupils or a draft SLA with My Place, within the Council, to provide support through the Council's transport pool. The framework for the private sector providers is currently being retendered as it only runs to the end of 2020.</p> <p>The Council's Children's Commissioning team works with both internal and external providers on a daily basis to keep the service running and address issues as they occur. This reflects a commissioning strategy focused on the relationship with the providers and developing their abilities through workshops looking at areas such as safeguarding. This strategy is needed due to the difficulty getting transport providers to deliver these services.</p> <p>This relationship-based approach is good practice but needs to be reinforced with regular formal touch points, clear contracts and inspection of policies and procedures. This is happening in some critical areas such as the robust checking we have seen of driver and assistants Disclosure and Baring Service (DBS) checks. However, this could be improved further, including the need for formal contract management meetings to assess providers against their key performance indicators' (KPI's), ensure that Health and Safety checks are fully documented and finalise a formal Service Level Agreement (SLA) for internal provision.</p> <p>While conducting this review, we identified no critical findings, however, we did identify one high risk finding, which is set out below:</p> <ul style="list-style-type: none"> • Health and safety - The Council receives health and safety policies from each of the providers and has these assessed by the London Safeguarding Children's Board (LSCB). However, the Council does not receive or retain any confirmation of these assessments. These policies |

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| | <p>being assessed are also heavily focused on safeguarding and therefore do not cover health and safety (H&S) issues such as vehicle safety. If the Council does not have effective health and safety policies to safeguard children, there may be reputational and legal issues in the event of an incident.</p> <p>There were also three medium risk findings.</p> <p><i>These actions are not yet due for follow-up.</i></p> |
| <p>Right to Buy & Sales Leasing</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place in respect of Right to Buy and Buy Backs.</p> | <p>A flowchart is in place which details the various stages which need to be followed when processing a Right to Buy (RTB) application. The flowchart includes details of the tasks and teams responsible for doing so. Two checklists are in place for the process to ensure all the correct checks (e.g. bankruptcy search, Council debt check, tenancy checks) have been completed and all stages of the process completed. The Capita system is used to record what stage of the process each case is at up until it is passed to the Conveyancing Team, who use their own monitoring spreadsheet.</p> <p>Valuations were previously completed by an external contractor but have now been brought in house with a dedicated surveyor.</p> <p>Upon completion of the RTB process the relevant Council departments are notified (e.g. Asset Management, Council Tax etc.). Money received for the sale is confirmed to have been received in the Council's bank account with evidence retained on file.</p> <p>Buy Backs are taking place on regeneration projects only at the time of audit due to financial constraints. Any repayment of discounts or first refusal opportunities should be flagged to the Council by the seller's solicitors due to the charge on the Land Registry. Buy Backs for regeneration projects are processed by the Conveyancing Team with a checklist followed to ensure all parts of the process have been completed.</p> <p>The audit identified two high risk findings:</p> <ul style="list-style-type: none"> • Conveyancing – Conveyancing is currently undertaken by a Team with no legal qualifications, and no oversight from a qualified professional (Solicitor or Licensed Conveyancer) in My Place. An internal investigation has already been completed and the results were reported via memo to key personnel on 22 March 2019 but no formal decisions have been made as it is pending the outcome of this audit. • Updating the Land Registry – Evidence is not being obtained to confirm the Land Registry has been updated to include the relevant charges after a RTB sale. <p>There were also nine medium risk findings.</p> <p><i>A team structure review is taking place which will see the recruitment of a part time Conveyancing Solicitor to undertake all reserved activities. This will be done as part of a wider My Place restructure which has been put on hold due to COVID-19 due to concerns surrounding consulting with staff remotely. As an interim measure there is now oversight from Legal Services who sign off the Land Registry changes and closing cases. This will be subject to further Internal Audit follow-up work.</i></p> |
| <p>Stewardship of Council Vehicles</p> <p>The objective of this audit is to evaluate the control design and test the operating</p> | <p>Vehicles that have been procured on behalf of the Council are maintained by Fleet Management. Management within each service are however responsible for the usage and allocation of vehicles assigned to their business area.</p> <p>All vehicles included within the fleet are insured by Zurich Municipal on behalf of the Council. The policy includes vehicles used by the Council and partner companies including BDTP and BDMS / We Fix who must adhere to the same</p> |

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|---|---|
| <p>effectiveness of key controls in place over the stewardship of Council vehicles during the period June 2019 to September 2019.</p> | <p>assessment requirements as LBBD officers.</p> <p>During this audit a series of interviews were carried out with the management of different service areas to review what policies were in place across the organisation and how vehicles are being used and managed. A review of vehicle and driver information held by Fleet Management was compared to the information held by service managers to ensure that all vehicles are insured, and drivers are insured and authorised to use vehicles.</p> <p>The audit identified three high risk findings:</p> <ul style="list-style-type: none"> • Outdated operational procedures – The Drivers Protocol has not been updated since 2014 and contains out of date information. • Drivers not appropriately authorised to drive Council vehicles – Three drivers had not been assessed to confirm their fitness to drive which is a requirement to be insured by Zurich Municipal. • Drivers potentially not suitable to drive Council vehicles– Two named drivers had requested to be removed from the list of approved drivers at which point DVLA checks had ceased and the driving assessment would need to be carried out again before any further use of Council vehicles. Management were unaware that they should no longer be driving. <p>There was also one medium risk finding.</p> <p><i>All agreed actions have been implemented.</i></p> |
|---|---|

A critical risk is defined as requiring immediate and significant action. A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary. Management are expected to implement all critical and high-risk recommendations by the agreed target dates. Internal Audit tracks management progress by way of a chase up or follow up to the audit client accordingly. Slippage in implementing agreed actions does occur and requires management to instigate revised targets and consider ways to mitigate the identified risks.

The following table summarises the critical and high risk findings, as at 31 May 2020, that have been reported, implemented, were outstanding and were beyond their due date:

| | Reported | Implemented | Outstanding | Beyond due date |
|---------------------|-----------|-------------|-------------|-----------------|
| Previous years b/f: | 10 | 10 | 0 | 0 |
| Current year: | 34 | 12 | 22 | 2 |
| Total: | 44 | 22 | 22 | 2 |

The progress in implementing the high-risk recommendations overdue as at 15 July 2020 has been reported in the following table:

| Finding | Agreed Action | Latest progress as reported by management |
|---|--|---|
| Right to Buy and Sales Leasing – Limited Assurance | | |
| Updating the Land Registry - the applicant's solicitors are currently responsible for updating the Land Registry following the completion of a sale. Testing of a | <p>The Local Land Charges Team will add the property charges to Land registry.</p> <p>On completion a memo will be sent of each sale requesting that the charge is</p> | <p>In progress, expected completion September 2020: A team review is taking place which will see the recruitment of a part time conveyancing solicitor to undertake all reserved activities. This will be done as part of a wider My Place restructure which has been put on hold due to COVID-19. As an interim</p> |

| | | |
|--|---|--|
| <p>random sample of 20 cases confirmed that only one had any evidence that the necessary charges had been filed on the Land Registry.</p> | <p>added to the property and confirmation of this being completed will be received and verified.</p> <p>As back-up we will also seek assurances from the buyers' solicitors that all appropriate charges have been added to the land registry once the sale has been completed.</p> <p>Agreed Date: 31 January 2020</p> | <p>measure there is now oversight from Legal Services who sign off the Land Registry changes and closing cases.</p> |
| <p>Conveyancing - discussion with the Interim Head of Leasehold Services and Reside confirmed that currently the conveyancing part of Right to Buy and Buy Backs is performed by a Team with no supervision from a legal professional. The Legal Services Act 2007 lists any activity which involves preparing an "instrument" relating to "property" as a reserved activity which must be completed at least under the supervision of a qualified legal professional.</p> | <p>We will ensure that the RTB officers are not carrying out reserved activity, regulated by the Legal Services Act 2007, without appropriate supervision from someone with a legal qualification.</p> <p>Consultation with Legal Services to continue.</p> <p>Agreed Date: 31 January 2020</p> | <p>In progress, expected completion September 2020: A team review is taking place which will see the recruitment of a part time conveyancing solicitor to undertake all reserved activities. This will be done as part of a wider My Place restructure which has been put on hold due to COVID-19. As an interim measure there is now oversight from Legal Services who sign off the Land Registry changes and closing cases.</p> |

Audits of Schools

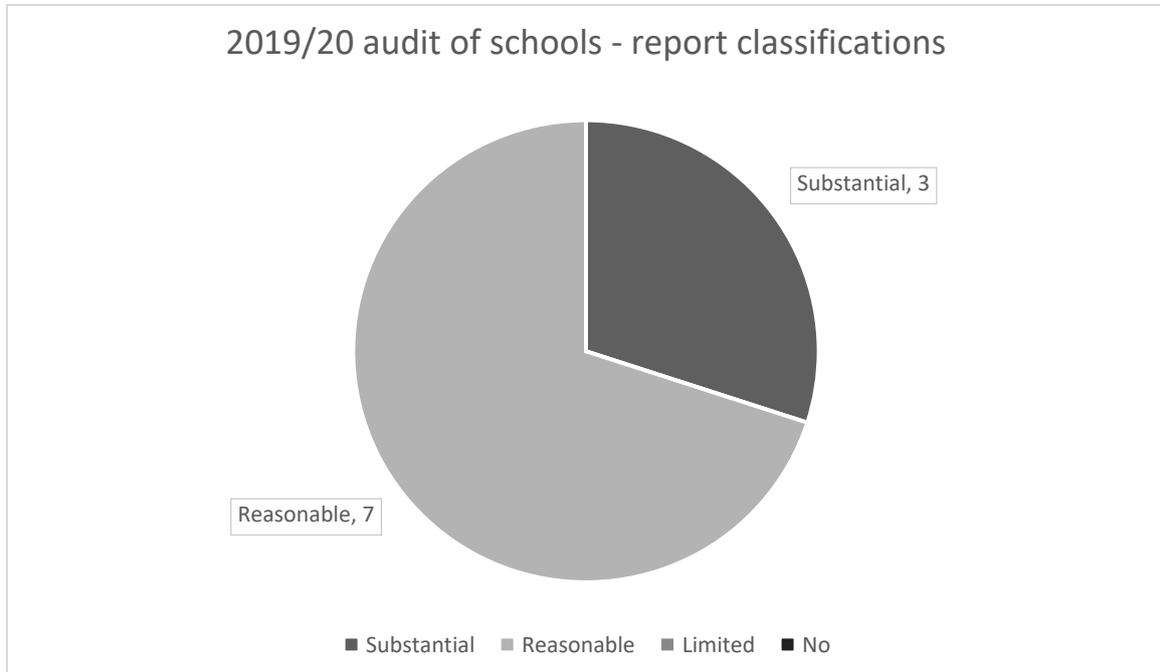
Schools within the Borough are audited on a risk basis. The audits of schools are fully outsourced to Mazars, one of the Council's internal audit co-source providers, following the initial Risk Assessment by the Head of Assurance.

The objective of these audits is to ensure that the schools have adequate and effective controls with regards to the financial management and Governance of the school.

The table below sets out the results of Mazars 2019/20 Internal Audit work auditing 10 schools:

| School | Opinion | Number of findings | | | |
|--------------------------------|-------------|--------------------|------|--------|-----|
| | | Critical | High | Medium | Low |
| Risk Assessment of Schools | n/a | n/a | n/a | n/a | n/a |
| General Schools follow up | n/a | n/a | n/a | n/a | n/a |
| All Saints Catholic Secondary | Reasonable | 0 | 0 | 1 | 1 |
| Becontree Primary School | Substantial | 0 | 0 | 1 | 0 |
| Dagenham Park Secondary School | Reasonable | 0 | 0 | 2 | 0 |
| Grafton Primary School | Reasonable | 0 | 0 | 3 | 1 |
| Hunters Hall Primary School | Reasonable | 0 | 0 | 2 | 0 |

| | | | | | |
|--------------------------------|-------------|----------|----------|-----------|----------|
| Jo Richardson Community School | Reasonable | 0 | 0 | 1 | 2 |
| Richard Alibon Primary School | Substantial | 0 | 0 | 0 | 0 |
| Ripple Primary School | Reasonable | 0 | 0 | 1 | 1 |
| Robert Clack Secondary School | Substantial | 0 | 0 | 1 | 1 |
| George Carey Primary School | Reasonable | 0 | 0 | 2 | 1 |
| TOTAL: | | 0 | 0 | 14 | 7 |



All school reports were rated as either “Substantial Assurance” or “Reasonable Assurance”. We issued no “No Assurance” or “Limited Assurance” reports in the year.

7. Internal Audit Performance

| Purpose | Target | Performance & RAG Status | What it measures |
|--|---|--------------------------|---------------------------------------|
| Output Indicators (Efficiency) | | | |
| % of 2019/20 Audit Plan completed (Audits at draft report stage) | >25% by 30/09/19 | 26% - GREEN | Delivery measure |
| | >50% by 31/12/20 | 45% - AMBER | |
| | >80% by 31/03/20 | 61% - AMBER | |
| | 100% by 31/05/20 | 100% - GREEN | |
| Meet standards of Public Sector Internal Audit Standards | Substantial assurance or above from annual review | Confirmed * - GREEN | Compliant with professional standards |
| Outcome Indicators (Effectiveness - Adding value) | | | |
| High Risk Recommendations not addressed within timescales | <5% | 5% - GREEN | Delivery measure |

| | | | |
|-----------------------------|--|--------------|-----------------------|
| Overall Client Satisfaction | > 85% satisfied or very satisfied over rolling 12-month period | 100% - GREEN | Customer satisfaction |
|-----------------------------|--|--------------|-----------------------|

* Internal Audit for 2019/20 was being provided by a combination of the in-house team, Mazars LLP and PwC LLP. All teams have confirmed ongoing compliance with the Public Sector Internal Audit Standards.

Quality and improvement programme

Internal Audit quality has been maintained through adequate supervision and review processes in the year.

Quality and consistency has been improved through use of revised Terms of Reference and report templates and stability has been achieved through the appointment of a permanent Audit Manager.

Plans are in place to further strengthen quality in 2019/20 particularly through further recruitment to the in-house team.

8. Appendices

1: Limitations inherent to the Internal Auditor's work

We have undertaken internal audit subject to the following limitations:

- **Internal control:** Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overruling controls and the occurrence of unforeseeable circumstances.
- **Future periods:** Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the following risks:
 - The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes.
 - The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Opinion

My opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit & Standards Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

2: Opinion types

The table below sets out the types of opinion that I have considered, along with an indication of the types of findings that may determine the opinion given. I apply my judgement when determining the appropriate opinion, so the guide given below is indicative rather than definitive.

| Opinion | Indication of when this type of opinion may be given |
|---|---|
| Satisfactory | <ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk. |
| Generally satisfactory with some improvements required | <ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk. |
| Major improvement required | <ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and • A minority of the individual assignment reports may have an overall report classification of either high or critical risk. |
| Unsatisfactory | <ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or • More than a minority of the individual assignment reports have an overall report classification of either high or critical risk. |
| Disclaimer opinion | <ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> - Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or - We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control. |

3: Definition of risk categories and assurance levels

| Risk rating | |
|---|--|
| Critical  | <p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> • Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (e.g. mass strike actions); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or • Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or • Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences. |
| High  | <p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> • Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or • Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or • Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or • High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences. |
| Medium  | <p>A finding that could cause:</p> <ul style="list-style-type: none"> • Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or • Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or • Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or • Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences. |
| Low  | <p>A finding that could cause:</p> <ul style="list-style-type: none"> • Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or • Minor impact on the reputation of the organisation; or • Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or • Handled within normal day to day routines; or • Minimal financial loss, minimal effect on project budget/cost. |
| Level of assurance | |
| Substantial  | <p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p> |
| Reasonable  | <p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p> |

| | |
|--------------------------------|--|
| <p>Limited</p> <p>●</p> | <p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p> |
| <p>No</p> <p>●</p> | <p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p> |

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AUDIT AND STANDARDS COMMITTEE

27 July 2020

| | |
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| Title: Internal Audit Response to the Covid-19 Pandemic | |
| Report of the Acting Chief Executive and Director of Law, Governance and HR | |
| Open Report | For Information |
| Report Author: Christopher Martin, Head of Assurance | Contact Details: Tel: 020 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive and Director of Law, Governance and HR | |
| Summary | |
| <p>This report provides a summary of the Internal Audit response to the risks that the Council faces as a result of the Covid-19 pandemic. The report includes the impact that the pandemic has had on planned Internal Audit work as well as the additional value that the team have added to the Council's overall response.</p> | |
| Recommendation(s) | |
| <p>The Committee is recommended to note the additional work that is being carried out by the Internal Audit team and the likely impact on the agreed Internal Audit plan for 2020/21.</p> | |
| Reason(s) | |
| <p>To provide assurance to the Committee over independent review of changing systems of governance, risk management and control in the face of the Covid-19 pandemic.</p> | |

1 Introduction

- 1.1 The Internal Audit Charter, Strategy and Plan were agreed at the last meeting of the Audit and Standards Committee in April 2020. At that stage the Head of Assurance explained that whilst the plan was being put in front of the Committee in good faith, changes were to be expected as a result of the Covid-19 pandemic, both in terms of the impact on the planned work of Internal Audit and the diversion of Internal Audit resources elsewhere. This report explains the phased approach taken by the Head of Assurance and progress made to date.
- 1.2 Internal Audit constantly assesses the operational impacts that the Council is facing and the new control environments we are operating under (mostly working from home and electronic based), adjusting the audit plan accordingly. This allows Internal Audit to provide targeted and valuable contributions to the Council across our immediate priority areas over the coming months.

- 1.3 The Internal Audit approach since the pandemic hit in March 2020 has been split into three phases:

Phase 1 – two elements:

- Covid-19 pandemic: response to immediate risks;
- Completion of 2019/20 Internal Audit plan (addressed in a separate report).

Phase 2 – Priority Audits from 2020/21 Internal Audit plan

Phase 3 – Determination of audits provisionally deferred to 2021/22

The timings of the phases are flexible and aligned to Council recovery arrangements. During the year, the plan will be revisited regularly to ensure that any audits or ongoing work is still appropriate as the situation evolves and reports made to the Corporate Assurance Group. Updates against the evolving plan and its delivery will be given to the Audit and Standards Committee at each meeting as usual. We are currently in phase 2 of the approach whilst continuing some of the work that was started in phase 1.

2 Phase 1 - Internal Audit Response to Pandemic risks

- 2.1 **Advice** - the Pandemic has meant that the Council is faced with unprecedented challenges to delivering business as usual. In order to safeguard the public purse and prevent fraud, it is important that the Council's control environment is maintained. Failure to do this could compromise vulnerable residents of Barking & Dagenham and have a lasting impact on the delivery of services both now and when the situation improves. Sadly, history has shown that fraudsters will be viewing this current period of uncertainty and the Council's rapidly evolving response as an opportunity. Service Managers always need to be mindful of the possibility of fraud.
- 2.2 The Head of Assurance has therefore produced and issued a guidance document for managers on the importance of maintaining effective internal control during these unusual times including the expected controls which must be adhered to. Where appropriate, an alternative action which could be implemented during the pandemic was stated to compensate for the inability to enact business as usual. There has also been guidance produced for Budget Holders specifically around making payments to suppliers and how to interpret government guidance on early payment etc.
- 2.3 **Counter Fraud Verification checks** - since April 2020 Barking and Dagenham Council has given out about £25m in grants to almost 2,000 local businesses through the Small Business Grant Fund and Retail, Hospitality and Leisure Grant. Businesses that are currently in receipt of small business rates relief (those with a rateable below £15k) were eligible to receive a grant payment of £10k and businesses with rateable values above £15k but below £51k and are classified as retail, leisure or hospitality received a grant of £25k. Businesses with a rateable value above £51k were not eligible for these schemes.
- 2.4 The Counter Fraud team have been working with the Revenues Team at Elevate East London to ensure that the grants reach the right businesses and ensure maximum benefit for the eligible residents. The team has undertaken a sample check of 20% of all grants paid to verify that they match the details held at Companies House and all of these checks returned as good matches, demonstrating that strong assurance could be placed on the application cheks made by the Revenues Team.

- 2.5 The National Fraud Initiative recently launched the Bank Account Verification and Active Company Check in collaboration with Experian. This allows organisations to verify the bank accounts of limited companies, sole traders and charities electronically using data from nine major UK banks and can also be used to help determine if a company is actively trading. This will allow a 100% check of grant payments to be made and will highlight any potential anomalies for further investigation by the Counter Fraud team. This work is ongoing and being co-ordinated by the Counter Fraud Manager.
- 2.6 **Continuous auditing** – this is an audit process whereby technology is used to gather and analyse data quickly, so that audit activities can happen efficiently and more frequently. This provides timely assurance over heightened risk areas arising from Covid-19 and delivers remote Council-wide support by ensuring that a strong control environment is maintained, whilst requiring minimal input from supporting stakeholders. This allows Internal Audit to identify control weaknesses, as well as opportunities for cost recovery and potential fraud.
- 2.7 Real-time checking of transactions to confirm legitimacy is ongoing in the following areas:
- Procurement Card Spend - analysis of purchase cards use including volume and value of transactions use split by month, service, vendor and individual to identify:
 - Purchases made over the monthly spending limits
 - Potentially non compliant transactions using the purchase cards (i.e. purchases made against approved card use policy)
 - Named card holders who have left/are on long term leave, but with transactions against their card.
 - Unusual card use including weekend purchases, overseas transactions and/or cash withdrawals.
 - Identify opportunities to seek out deals with potential suppliers from regular purchase cards merchants.
 - Emergency Payment Procedures - emergency processes profiling:
 - Volume and value of emergency processes split by:-
 - Month
 - Service
 - Value range
 - Contractors
 - Unusual spend pattern analysis
 - Identification of noncompliant procured services.
 - Contractor Spend - supplier spend profiling analysis through the year and pre and during the pandemic, including:
 - Duplicate payments
 - Consistent low spend
 - Unusual spikes in spend
 - Employee/Vendors sharing bank accounts
 - Staff Expenditure, e.g. Agency Time Sheets, Expenses

2.8 **Specialist Internal Audit projects** – the changes to the way that Council services are being delivered, i.e. mostly remotely and electronically, means that the Council is facing some different risks that warrant a more in depth control review than continuous auditing can offer. There have been three additional reviews that have been commissioned as a result of the pandemic and these are as follows:

- IT Resilience - an independent high-level IT resilience and IT disaster recovery review of the Council's response to COVID-19, focusing on:
 - IT lessons learned - what went well and what not so well, providing context and a steer to the other stages of the review;
 - IT Resilience – Appropriate IT resilience can prevent or delay the need to invoke disaster recovery plans in the first place;
 - IT Disaster Recovery (ITDR);
 - Business Continuity Plan (BCP) alignment – a high level of review of the alignment of the ITDR arrangements with the current BCP.
- Privacy and Data Protection - an independent data privacy review of your compliance with the requirements of the GDPR focusing on:
 - The adequacy and effectiveness of the controls to support compliance;
 - The specific risks and controls around data privacy for those working from home;
 - Identifying gaps and weaknesses in the control environment;
 - Providing advice in relation to the prioritisation of actions;
- Ethical Hacking – focusing on:
 - Remote working security hardening (including end user computers, remote access solution and mobile devices);
 - External infrastructure penetration testing;
 - Phishing exercise reflecting actual ongoing Covid-19 response.

2.9 The results of the continuous auditing and specialist project reviews will be reported to the Audit and Standards Committee as normal.

3 Phases 2 & 3 - Planned Internal Audit work 2020/21

3.1 Progress in delivering the agreed 2020/21 Internal Audit Plan has been impacted by the COVID-19 outbreak as a result of three main factors:

- Some service areas have not been able to accommodate Internal Audit work as a result of their operational response to COVID-19;
- Some service areas are not fully operational and are unable to accommodate Internal Audit work in a remote capacity;
- The imposition of lockdown as the last 2019/20 audits were being completed and the desire to see this work to a satisfactory conclusion led to an increase in elapsed time to complete fieldwork and a subsequent delay to starting 2020/21 work; and
- Additional work undertaken as a result of the Council's response to the pandemic (above).

- 3.2 While departmental engagement with planned Audit work is improving, it is anticipated that disruption will continue throughout the second quarter of the year. There have not yet been any explicit deletions from the Internal Audit programme as a result of Covid-19 but it was noted in the Internal Audit Strategy for 2020/21 that it is likely to have an impact on Internal Audit staff and management resources for at least Quarter 1, for example some internal staff were redeployed to Registrars and our external providers have also furloughed some staff. The Internal Audit Strategy does however express a commitment to deliver the plan as far as pragmatically possible and work has started to that effect. Internal Audit are using some of our contingency days to resource the additional work identified in Section 2, although this may not be sufficient and a fuller review as to the impact on the 2020/21 Internal Audit plan will be provided to the November Audit and Standards Committee with the interim 6 month update as normal.

4 **Financial Implications**

Implications completed by Katherine Heffernan – Group Manager, Service Finance

- 4.1 This report has no specific finance implications.

5 **Legal Implications**

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 5.1 This report has no specific legal implications.

6 **Other Implications**

- 6.1 **Risk Management** – The internal audit plan is risk-based and therefore supports effective risk management across the Council.

- 6.2 **Staffing issues** – There is no impact on current staff.

- 6.3 **Corporate policy and customer impact** – The internal audit service is aligned to corporate objectives. No impact on race, gender, disability, sexuality, faith, age or community cohesion.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices: None.

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AUDIT AND STANDARDS COMMITTEE

27 July 2020

| | |
|--|---|
| Standards: Complaints Update Report | |
| Report of the Monitoring Officer | |
| Open Report | For Information |
| Report Author: Dr. Paul Feild Senior Governance Lawyer | Contact Details: Tel: 0208 227 2638 E-mail: paul.feild@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Fiona Taylor, Monitoring Officer and Director of Law and Governance | |
| <p>Summary:</p> <p>This report is to provide the Committee with an update of complaints against Members of the Council, their current status, outcome and actions taken.</p> <p>On 1 July 2012 the Assembly adopted, as required by the Localism Act 2011, a new local Code of Conduct and Complaint Procedure. As the Code approached a year in existence, this Committee reviewed the structure and drafting of it so as to make improvements in composition and simplify it where possible.</p> <p>The re-drafted Code was adopted by Assembly on 17th July 2013.</p> <p>In accordance with the Code, the Monitoring Officer conducts an initial assessment of complaints about Members of the Council against approved criteria and may consult with the Independent Person and try to resolve matters informally if possible or appropriate. If the complaint requires further investigation or referral to the Audit and Standards Committee there may still be a hearing of a complaint before its Sub-Committee.</p> <p>Since reporting to the July 2019 Audit and Standards Committee, there have been 2 Complaints received by the Monitoring Officer. Both were dismissed at the first stage by the Monitoring Officer by reason of no evidence of a breach.</p> | |
| Recommendation(s) | |
| The Audit and Standards Committee is recommended to note the report. | |
| Reason(s) | |
| For continued good governance and to ensure that the Standards Committee is aware of complaints against Members of the Council. | |

1. Financial Implications

- 1.1 There are no financial implications associated with this report.

2. Legal Implications

Implications completed by Dr. Paul Field, Senior governance Lawyer

- 2.1 It is a legal requirement that the Council promotes and maintains high standards of conduct by Members and Co-opted Members of the authority. The Audit and Standards Committee contributes to this duty by receiving reports from the Monitoring Officer and assessing the operation and effectiveness of the Code of Conduct for Members. Additionally, the Committee advises on training of Members on matters relating to the Code as well as receiving referrals from the Monitoring Officer into allegations of misconduct in accordance with the authority's assessment criteria.
- 2.2 This report furthers those objectives by providing timely updates to the Standards Committee with regard to the operation of the Code of Conduct.

Background Papers Used in the Preparation of the Report:

- Council Constitution

List of appendices:

- Appendix A – Schedule of Complaints received

Member Complaints – Monitoring Officer Rolling Record

| Ref: | Receipt of Complaint | Member | Complainant | Nature of Complaint | Investigation | Standards Hearing | Outcome | Status (Open/ closed) |
|-------------|-----------------------------|---------------|--------------------|----------------------------|---|--------------------------|----------------|------------------------------|
| MC 1/20 | 17 Jan | Single Member | Officer | Code of Conduct | Completed consultation with Member | To be determined | On/Going | Open |
| MC 3/20 | 1 June | Single Member | Citizen | Code of Conduct | In process of clarifying issues and facts | To be determined | On/Going | Open |

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Audit and Standards Committee - Work Programme 2020/21

Chair: Councillor Princess Bright

| Meeting | Agenda Items | Lead Officer | Reports deadline |
|------------------|--|--|---------------------------|
| 16 November 2020 | Annual Governance Statement Internal Audit 20/21 Q1-Q2 Review Counter Fraud 20/21 Q1-Q2 Review Risk Management Update Counter Fraud Policy Review Approval of 2019/20 Accounts Audit Completion Report (ISA260) for 2019/20 Account Standards Complaints update (TBC) Work Programme | Chris Martin Chris Martin Chris Martin Chris Martin Chris Martin Tom Mulloy Lisa Clampin (BDO) Paul Feild Governance Officer | 10am, Thursday 5 November |
| 18 January 2021 | Risk Management Update Standards Complaints update (TBC) Work Programme | Chris Martin Paul Feild Governance Officer | 10am, Thursday 7 January |

| | | | |
|---------------|---|---|-------------------------|
| 27 April 2021 | Internal Audit 20/21 Q3 Review Counter Fraud 20/21 Q3 Review Approval of Internal Audit Charter, Strategy & Plan 2021/22 Information Governance Annual Report scheduled Standards Complaints update (TBC) Work Programme (TBC) | Chris Martin Chris Martin Chris Martin Natalia Monvoisin Paul Feild Governance Officer | 10am, Thursday 15 April |
|---------------|---|---|-------------------------|