

MINUTES OF INFORMAL AUDIT AND STANDARDS COMMITTEE

Monday, 31 January 2022
(7:00 - 8:30 pm)

Present: Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Irma Freeborn and Cllr Giasuddin Miah

Apologies: Cllr Simon Bremner and Cllr Mohammed Khan

25. Declarations of Interest

The Independent Advisor (IA) disclosed that he was engaged as a consultant to Public Sector Audit Appointments (PSAA) which appoints the Council's external auditor. The IA disclosed that he was advising on the financial evaluation on the forthcoming tender and the potential impact on audit time resulting from changes in auditing and accounting standards requirements.

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

26. Minutes - To note the minutes of the meetings held on 28 September 2021

The IA stated that the minutes wrongly refer to him as a member of the Committee rather than advisor and requested that the declaration of interest be given more detail on the nature of his work with PSAA.

The IA also asked that the use of the term of 'Audit related work' be changed as this referred to a specific activity under audit standards. There was also a typographical error in the tenth paragraph of the audit update and there was a reference to 'IA' which should be 'CA', as it related to the Chief Accountant.

The minutes of the meeting held on 28 September 2021 were noted and the Chair requested that the edits highlighted above be added.

27. Accounts Audit Update - 2019/20

The Chief Accountant (CA) confirmed that the audit had resumed, and progress had been made in relation to the 2019/2020 Statement of Accounts. The recent delay was due to a member of the audit team being signed off sick. It was intended that the Audit Findings Report (ISA260 Report) was to be presented at the next meeting of the Committee, taking place on 7 March 2022.

However, BDO added a caveat that, given the possibility of further issues arising in the audit, they could not guarantee that the ISA260 Report would be ready by the next meeting. BDO explained that there was still ongoing complex work in relation to the audit which could present challenges going forward. Therefore, BDO was

erring on the side of caution. The Chief Financial Officer (CFO) added that a paper would be provided to the Committee at the next meeting, updating them on the audit, so that the Committee would have something to determine.

The fieldwork relating to testing was expected to be completed by early February 2022. BDO employed another audit firm to assist them in clearing the backlog in auditing grant claims. As a result, the audit was back on track with grant claims, including those for 2021. Housing benefit claims were being audited by the audit firm employed by BDO.

BDO signed off on the audit of four subsidiaries within the Companies House deadline. Three entities were nearing audit completion and were expected to be complete by 11 February 2022. It was intended to complete the audit as quickly as possible.

For the fiscal year 2021-2022, BDO had resigned as auditors of Barking and Dagenham Reside Ltd (Reside) and the board would be appointing new auditors in due course. BDO explained that the resignation was due to Reside being unable to commit sufficient staff. BDO noted that the Reside Group comprised different entities for which the accounting requirements differed. BDO advised that Reside required improvement in in-house quality control and the ability to detect errors and misstatements.

The Chief Financial Officer (CFO) explained that Reside is an independent entity and the Council can only advise. The CFO also stated that he had stressed to Reside to commit more resources, especially in relation to finance and the audit and to reduce its dependence on Council staff. There had been progress as staff had been recruited by Reside. The CFO assured the Committee that planning had been undertaken but unfortunately, they did not always succeed, although the outcomes had been achieved in some circumstances.

The IA suggested that the Committee's terms of reference be amended to clarify the extent of the Committee's role in the audit of the Council's subsidiaries. The Chair agreed and requested that an item relating to this, be placed on the Committee's work programme for the next municipal year.

BDO representatives provided additional information explaining that field work was still ongoing in relation to personal protection requirement (PPE) valuations. BDO explained that it was time consuming owing to the requirements surrounding the analysis. Review work was ongoing, and it was expected to be completed in February 2022.

As part of the work, errors had been detected and correcting the misstatements was technically challenging. BDO was working on addressing the areas in cooperation with the Council and was confident that this would be completed in time for the next meeting of the Committee.

The Chair appreciated the update but expressed concern at the continuing delay, noting that the Audit and Standards Committee was required to submit an annual report to the Assembly, but had been unable to do so owing to the audit delay.

In response to the Chair's concerns, the Chief Accountant explained that the Audit

Manager had to take time off on medical grounds. However, BDO did mitigate the issues that arose as a result and the audit was placed back on track in January 2022, and momentum had picked up.

In relation to grant claims, Grant Thornton was carrying out the certification work on BDO's behalf. Usually, the grant claim certifications were brief and the required information was ready, which hastened the process.

In relation to the housing benefit audit, Grant Thornton was providing support and in terms of future working in 2021-2022, a decision had not been made yet. In the event that BDO did not have capacity, then the Council would consider appointing another auditor. The CFO added that the audit was severely affected by Covid-19 owing to staff absences and that this had been particularly acute in the previous six months.

The Committee noted the report

28. External Audit Appointment beyond 2023/24

The CFO explained that PSAA was undertaking procurement in relation to the appointment of the external auditor for 2023-2025. The Council was required to engage an approved auditor who was capable of carrying out the audit under the audit regulations, and the CFO highlighted two options:

- To engage an external auditor via the PSAA; or
- To conduct an independent procurement process.

The report recommended using the PSAA arrangement as the Council would find it challenging to engage an auditor in the open market. Also, given that many of the audit firms would be involved with the PSAA procurement process, the Council would not necessarily be able to engage a firm that would not otherwise have been considered, nor would necessarily result in value for money.

The CFO added that the PSAA would make sure that issues the audit sector had experienced, such as delays, would be addressed though the CFO cautioned that it would take time to resolve the issues. The PSAA would also weight quality and price which, it was hoped, would ensure that audits were properly resourced and address the issue of delays, as 15% of public sector audits were delayed in the previous fiscal year.

The CFO explained that the Council had to opt into the PSAA's process and that it would require the approval of the Assembly. The Committee agreed that the PSAA process would be the appropriate mechanism.

The Committee agreed to recommend to the Assembly that Barking and Dagenham Council opt into the PSAA external audit procurement process.

29. Review of Key Counter Fraud Policies & Strategy 2021

The Head of Assurance (HoA) updated the Committee. The Council's anti-fraud policy was made up of seven policies and one strategy. The policies and strategy were reviewed annually. Changes were made to make the targets more

challenging to the Counter Fraud team. Consultation was undertaken with trade unions to ensure that staff had the opportunity to question and challenge the proposals.

The Committee agreed to recommend the strategy.

30. Counter Fraud 21/22 Q1-Q2 Review

The HoA explained to the Committee that counter fraud was divided between housing fraud and corporate fraud, with corporate fraud consisting of all fraud not connected to housing.

The HoA highlighted that investigatory work was back to its pre-Covid-19 levels. In relation to corporate fraud, the HoA highlighted a company that purportedly claimed it was recovering overpayments of business rates on behalf of businesses that had paid their rates and, as a result, gained circa £22k of funds that they were not entitled to. Some of this money was recovered from the banks where the money had been paid into, but the Council had been unable to recover all of the money. The police had been contacted and were presently investigating. The HoA pointed out that this was a national problem, and that the Council was working with Counter Fraud officers from other councils who had also been targeted.

The HoA, following questioning, explained that there were legitimate companies that sought to recover overpayments of Business Rates on behalf of businesses. The Council published business rate payments with a list of companies in credit and this was likely how the fraudsters had obtained the information.

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

Four properties had been recovered from tenants who were illegally subletting, saving the Council circa £250k. As a result, four households previously living in temporary accommodation, had been permanently housed.

The Chair asked about how housing fraud was brought to light. The HoA explained that whistleblowing by members of the public, including family and friends of fraudsters who objected to the abuse of public property, was the main reason that the Council was able to catch fraudsters. In addition to this, housing officers engaged in unannounced visits to properties, especially in areas where fraud was more likely, such as properties located close to railway and tube stations.

The Committee noted the report.

31. Internal Audit 21/22 Q1-Q2 Review

The HoA noted that the Council operated a risk-based internal audit plan and the plan was subject to amendment where the risks changed. Eight of the forty one

audits were completed, defined as being at the draft report stage, and the rate of completion was 20%, which was less than the 25% target.

One report was rated 'limited assurance' and this related to CCTV operation as there were no contracts in place, meaning that it would not have been clear who, between the Council and the suppliers, would be liable if there was a dispute. This had since been addressed with a wider review of CCTV operations and a new contract was due to start in the summer.

In relation to the progress of the implementation of audit findings, the report highlighted incidences where this had not been completed by the due date. The HoA cited information security and explained this had been paused owing to the Government undertaking a consultation on GDPR and the Council would wait until the Government published its conclusions.

Regarding tenants and leaseholder payment requirements, these remained outstanding. There was a wider Council project around debt recovery and service charges, and this action was incorporated into that wider remit.

The Open Housing System was initially highlighted as 'limited assurance,'; however, all required actions had been implemented and the HoA was awaiting corroborating evidence of the business continuity and disaster recovery testing.

In response to questioning from the Committee, the HoA confirmed that school audits were still being carried out by Mazars. However, the HoA disclosed that a review was being carried out on how to conduct such audits going forward and that there was a case for bringing School Audits in-house.

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

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

Following further questioning, the HoA elaborated on how internal audit dealt with managers and directors when they requested extensions to deadlines. Extensions would be granted only if a good reason was given for the extension request and adequate compensatory controls were implemented during the extension period.

The Committee noted the report.

32. Standards Complaints update

The Head of Law (HoL) updated the Committee and highlighted that greater information was included following feedback by the Committee at the previous meeting.

The Committee noted the update.

33. Work Plan 2021-2022

BDO explained that audit plan for the 2020/2021 was still being drawn up and would come to the next meeting following the March 2021 meeting. The dates for the 2022/2023 municipal year were still to be finalised.

The Chair noted that, with council elections taking place on 5th May, the Purdah period will start in late March and sought clarification on how this would affect the audit completion report if it was not completed by the next meeting.

The CFO suggested, in such circumstances, that the draft completion report could be provided to the Committee and the final report be approved via delegated authority.

the Senior Governance Officer confirmed that this was possible but that it would require the CFO, as the Section 151 Officer, to formally approve it if the Chair was content for the CFO to do so.

The Chair agreed to further consider the matter once further information from BDO was received on the likelihood of the Audit Completion Report being ready for consideration at the next meeting.

The Committee noted the programme.